THE JOURNAL OF THE AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

PUBLISHED QUARTERLY

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

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THE JOURNAL OF THE AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS
of the National Association of Real Estate Boards

Volume I. OCTOBER, 1932 Number 1

Published at 59 East Van Buren Street, Chicago, Illinois.

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American Institute of Real Estate Appraisers

of the National Association of Real Estate Boards

Certificate No. 1

1932

CERTIFICATE OF ELECTION

This is to Certify that

Philip W. Kniskern

of

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has qualified as to his professional experience, standing and ability, and has therefore been elected an

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OF THE AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

In Witness Whereof, the American Institute of Real Estate Appraisers has caused these presents to be signed in its behalf by the President, Secretary and Governing Council, and its Corporate Seal to be hereto affixed on this first day of July, 1932

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This Certificate is the property of the American Institute of Real Estate Appraisers, and must be returned to the Secretary upon termination of Membership.

THE HARRIS STUDIO, CHICAGO

A MESSAGE FROM THE PRESIDENT OF THE INSTITUTE

A GREAT forward step and one of tremendous potentialities was recently taken in Cincinnati when some 120 of the leading real estate appraisers representing all parts of the country formed the American Institute of Real Estate Appraisers.

The Public Already Looks to the Organization for Results

The publicity which has already been given to the Institute since the announcement of its formation clearly indicates that the public expects of us, who are members, real accomplishments through the Institute. Each and every member must recognize this responsibility and duty.

The *Real Estate Record and Guide*, in referring to the Real Estate and Building Management conventions, regrets the fact that so little aggressive and constructive action came from these meetings but mentions the Institute of Appraisers as an outstanding exception to their thought and states, "Since appraising holds the key to the success or failure of building enterprise, any constructive advances in this field will contribute to real estate investment stability and security". In further commenting upon the unsettled real estate conditions and the necessity of control and economic study, with what appears to it to be a present lack of leadership, they state, "That someone may emerge in the near future appears evident now, but such a person is more likely to come from the American Institute of Real Estate Appraisers than any other organization".

A Strictly Professional Body

The National Association of Real Estate Boards with others has for some time recognized the generally disorganized conditions in appraisal procedure and the many serious errors, and in some cases abuses, that exist and have existed to so large an extent in real estate valuation work. This problem has been studied for more than two years by a committee chosen for their standing, knowledge of the subject, acquaintance with conditions, and geographical representation. The results of those deliberations were, first, that corrections could be more effectively accomplished from within the body of those doing appraisal work than from without and, second, that a strictly professional organization would be the most efficient vehicle for this accomplishment.

The basic structure of the new organization was developed after a careful study of many existing American and English professional societies including among others the American Society of Civil Engineers, the American Institute of Architects, the American Institute of Accountants, the Surveyors' Institute and the Auctioneers' and Estate Agents' Institute.

Primary Purposes

The Institute has as its primary purposes the advancement of the science of appraising, the selection and identification of competent individuals, and the control of its members through disciplinary powers.

Proposes to Develop Appraising Science

Appraising today is not an exact science; it can in fact never be so to the extent that mathematics, physics, chemistry, and the like are. An appraisal must always be a judgment. A scientifically formed judgment is one thing, while a haphazard guess is quite another.

There are economic laws and principles that affect and control the value of a piece of property. Some few of these we understand clearly. Others we have hazy ideas about, and still others exist whose influence or existence is seldom recognized or known.

In some respects it may be said that we have all manner of thought in the profession today varying from the extreme theorist who considers a valuation to be little more than a complicated mathematical computation, to the extreme practical appraiser who abhors any theory or economics as such and who considers sales and transactions or construction costs the sole basis. Both lines of thought have merit, and it is our purpose in the Institute to find a sound meeting ground between these extremes, not by dictation of a few but rather through organized discussion and argument by large numbers.

Advance Comes From Interchange of Ideas

Improvement and advance come from the interchange and discussion of ideas and theories, and from sympathetic constructive criticism of actual work or theories, particularly when carried on with those whom you consider reasonably approximate to your professional equal and who are recognized leaders in their individual communities.

A Forum for Discussions and Self Education

The Institute proposes by fostering among the leading appraisers from the various parts of the country intimate discussions of economics, appraisal procedure, appraisal technique, costs, annuity valuations, market prices, transactions, and like subjects, to develop an agreement, which does not now exist, as to sound, proper, and reasonably uniform procedure for each of the varied appraisal problems. By so doing it will accomplish a far greater unanimity of thought and procedure than now exists and thereby bring about greater uniformity of valuations. A practical understanding and application of sound economics and theory, together with uniform procedure, will eliminate much of the variation in appraisals that has been and is occurring and will lead to far sounder valuations.

Put in other words, the Institute will foster the development of the science of real estate appraising and will elevate it to the level of a profession as it deserves.

The first meeting of the Institute provided an active discussion of many current appraisal problems which, although characterized at the outset by marked differences of opinion, developed nevertheless a material approach toward uniformity as a result of the discussions.

Men of Established Reputations Owe Support to the Institute as a Duty to the Public

Some of the older men with thoroughly established reputations in the appraisal field may feel that the Institute can give them nothing. Without arguing this point, I am anxious that men who have such a feeling should recognize a public responsibility and give their influence to so worthy a movement as this. I earnestly urge those who are not now members to join and in that way assist in this endeavor to improve appraisal procedure and, thereby, the general stability of real estate.

The Institute Itself Will Do No Appraising

Some seem to have the erroneous impression that it is the purpose of the Institute to do actual appraising. Such is not the case. The Institute will do no appraising — that work will be done,

as at present, by individuals. These individuals will be members of the Institute just as the architect and engineer are members of their own professional bodies.

The Institute Will Augment Work of Existing Appraisers and Appraisal Committees

Furthermore the Institute cannot and does not intend to interfere with the work now being done by honest and competent individuals or committees. Its effect, on the contrary, should be to increase the work available to these individuals and groups through drawing public attention to their competency and ability and similar attention to the necessity as well as benefits resulting from sound appraisal advice and service. By elevating the work to that of a profession it will be the means of bringing and keeping fees for these services at a level commensurate with the responsibilities, effort, and experience involved.

Clients Will Develop Greater Confidence in Institute Members

Membership in the Institute should create in one's client a greater desire for the appraiser's services and a greater confidence in the results thereof resulting from the fact that such membership is prima facie evidence of one's intention to keep thoroughly abreast of the times and the development of his profession.

Will Collect and Distribute Important Information

As rapidly as it has funds and can organize to do so, the Institute intends to collect, collate, and develop much statistical and professional information for its members through existing sources, through its own research and through the interchange of ideas and information. This work has already been started and the results will be distributed to members from time to time.

The Journal

This is the first issue of the "Journal", which is to be published quarterly. It is expected that this quarterly will be supplemented by "Bulletins" issued from time to time to the members.

Value of Institute Depends Upon the Active Interest of All Members

In this message to the members I wish to repeat that the Institute has tremendous potentialities and is organized to do a most important public work. This work cannot be done by the officers alone. To make it successful will require the active mental and physical assistance of each and every member, which means that members should attend all meetings and take an active part in the discussions. They should seek interesting and educational appraisal examples and send them to the Director of Activities for use in the publications of the Institute. If you have had an interesting problem which involved any new or unusual phases of appraisal practice send these to the Institute for publication in the Journal for the education of your fellow members, for the building up of your own reputation, and for the educational value of discussions which may result therefrom.

This edition of the "Journal" carries many of the questions discussed at the Cincinnati meeting and subsequent editions will carry sample appraisals or other appraisal questions.

The Journal Is a Printed Forum for Discussions

You are urged to read carefully those questions which are of interest to you and to take a few minutes to write out your comments on the prin-

ciples applied to the solution of a particular problem or question. You may comment on the solution of the problem as a whole or on only some single phase of the solution. Your comments will be published in the Journal as space is available. It is the intention of your officers through this method to carry on a running discussion on appraisal problems to fill in the interim between formal meetings.

The officers request also that you write to them freely of any suggestions you may have which will improve the Institute, make it more helpful to you as a member and any items which you feel could be included in the Journal which would be of benefit to all.

Selection of Original Members

As in all other societies of this nature it has been necessary to select the first group of members from the present recognized leaders in the profession. This has been successfully accomplished and greatly assisted through the already strong and outstanding position of the National Association of Real Estate Boards and its member boards. This first group has been selected after careful and quite complete investigation through the available channels and the choice has been based upon the local standing, experience, demonstrated ability, and record of each individual. The Institute has remarkably complete confidential records upon each of its members and intends to keep this intimate contact constantly up to date.

The Type of Examinations—Need Not Frighten Capable Men or Men of Established Reputations

Subsequently the Institute proposes, prior to the granting of membership, to make the same thorough investigation of each candidate as has been outlined just above and in addition to give written and oral examinations. These examinations will be such as to show by direct questions the extent of the candidate's grasp and conception of the important value factors such as the real estate market, transactions therein, the breakdown of past transactions, sales, leases, investment principles, construction methods and costs, design, transportation, trends, buying power, and like economic influences. A second section may propound one or more actual appraisal problems in order to demonstrate the ability of a candidate to make practical and accurate applications of his knowledge. The third section would be designed to reveal the candidate's conception of the ethics and proprieties of the profession.

Local Chapters

The organizers have felt that the work of the Institute could be accomplished more successfully and more rapidly if supplemented by the work of local chapters permitting more numerous meetings; and general provisions have been made in the by-laws for this. Two requests have already been received to form such local chapters. The officers will be very glad to have any suggestions from members as to the organization, equipment, or functioning of these local chapters.

The local chapters as such will not do any appraisal work. That is, they will not compete with the members. This restriction applies also to the Institute itself.

The Institute Recognizes Its Responsibility to the Public

It is evident that the Institute has been organized and is being developed with a full and clear conception of its public obligations and responsibilities and that it intends to cherish and constantly justify full public confidence and respect.

Members Carry This Responsibility

The Institute clearly gives something of great value to its members not only in the way of knowledge but in prestige and good name. The mere fact of membership in itself is a valuable asset — and a responsibility.

Control of Members Important

To protect this heritage to its members the Institute must have a control sufficiently strong to eliminate the undesirables and those who do not or cannot maintain the high professional standards which it fosters.

Professional Identification of Members

The Members after their examination and admission will be identified by an appropriate certificate of the Institute as well as a professional badge or emblem to be worn in a manner similar to those of other professional societies. They may further identify themselves in professional correspondence and in documents by the initials "M.A.I." following the name or signature and by the use of the expression "Member American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" on their stationery.

Affiliates

The Institute provides for a grade of Affiliate. This latter grade gives no professional standing and in fact the by-laws specifically prohibit any professional reference to this form of association with the Institute. This grade is intended as an educational grade and for those who wish to maintain contact with appraisal activity but who do not wish to practice professionally.

A Plea to Each Member for Active Interest

In closing I wish to carry the particular message to all members that the Institute can be only as strong as its component parts and that each member in joining it has assumed a duty to the Institute and to the public to take an active, aggressive interest in its activities and purposes.

The greater the strength of the Institute the greater will be its selfish value to its members. It has the opportunity of doing a much needed and valuable public work while producing actual monetary benefits to its members.

President.

August 1, 1932.

EACH MEMBER ON THE MEMBERSHIP COMMITTEE

The development of the Institute, its standing and acceptance by the public, and thereby its value to its Members, depends primarily today upon the size and quality of its Membership.

Each and every Member is therefore and hereby officially appointed as an active member of the committee on new members.

You are urged during the next sixty days to talk to every appraiser of standing with whom you come in contact and urge him to join the Institute. Make a definite campaign in your own community to bring this matter to the serious consideration of every man of accepted standing and desirable qualifications.

Do not desist in your efforts on any individual until he actually has sent in his application.

If you need any help or information, communicate with Harry Grant Atkinson, Director of Activities, or the Chairman of the Membership Committee.

P. W. Kniskern

President.

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FRACTIONAL AND SUMMATION APPRAISALS

The Problem

"I find Section II, Article 8, 'Fractional and Summation Appraisals' and Section III, Articles 6 and 7 'Fractional Appraisals' and 'Summation Appraisals' of the Standards of Practice so definitely restrictive that strict adherence thereto would prevent a procedure necessary in some appraisal problems."

A. Paper* by K. Lee Hyder, Milwaukee, Wisconsin

THE actual condemning of Summation appraisals, which is done in Section II, Article 8**, is, in my opinion, a grave mistake and fundamentally unsound. It is perfectly obvious that several of the reasons for an appraisal, as stated in Section I, Article 4, such as insurance and accounting, would demand the establishing of figures upon the so-called summation basis. A generalization, therefore, condemning outright fractional and summation appraisals is assuredly fallacious.

Now, assuming that we all agree to this extent, I take the position that it is unsound to condemn the summation method even where the purpose of the appraisal is to determine the security for a loan.

The proper valuation of investment property (and I am speaking of market value) must consider first the *capital requirements,* and secondly, the *return* which such capital is making or is susceptible of making. Capital tends to seek its own level of risk in investments of equal hazard. This is an economic law that must be recognized. If in our judgment earnings are more than a fair return upon the capital requirements, it raises the definite hazard of their continuity; if they are less, we feel that the income is conservative. All of these weigh in the balance when we are determining value.

I believe that we should *demand* that every appraisal show the value of the land as vacant, the estimated cost of the improvements (accurately established by a properly priced bill of quantities and not on a cubic foot "guess"); and that the condition and utility of such improvements be fully reported upon. The reasons for my stand are three-fold:

1. The necessity for obtaining full knowledge on every element comprising an operating, going property.
2. The belief that basic facts essential to an accurate appraisal very frequently cannot be obtained by one individual.
3. The fact that it is not only necessary to fix actual value, but essential that such value be substantiated, if required in a Court of Law.

In the first instance there is the important question of the basic land value. This value may be considered independently from the improvements, and while the land value undoubtedly results from the return that can be made from the operation of an improvement, it is equally true that the return that can be made from a suitable improvement must be dependent upon proper balance with the basic land value.

Property under our general concept is defined generically as "all the rights to future benefits arising from ownership". The value of an Investment Property can be accurately determined only by the evaluation of all and each of such "benefits", and I submit that we do not know the value until every element is determined and weighed with judgment. Even if we accept earn-

*This paper was presented at one of the convention sessions of the Institute in Cincinnati, June 29-July 1, 1932.

**Of the Standards of Appraisal Practice.

ings as a basis, intrinsic or potential earnings cannot be established until we adjust maintenance, periodic replacement, and depreciation expense against an accurate appraisal of the physical property.

Taking up the second reason, it may be that the appraiser who is most familiar with the land and economic situation is not at all competent to determine what investment would be required in constructing the improvement in question; to measure its condition and utility; or to estimate its expected life. In such an event he must have expert outside assistance in making his valuation.

In discussing the third reason, the courts are very specific in their demands for proof of market value, and I believe their attitude is best expressed in a decision by the New York Supreme Court in the Fairfax Apartment Corporation case, July 1, 1930, which is so important that I am reading briefly from the decision:

> "—When one considers the nature and purpose of a loan, he is forced to the conclusion that the valuation of the security should be based on physical-tangible property, and not on some unsubstantial, fanciful, or ephemeral intangible. . . . while ability and willingness to pay depends to some extent upon the earning capacity of the debtor, nevertheless, if the physical property back of the loan is insufficient to take care of it, the venture could hardly be recommended as a conservative investment, no matter what the potential earnings of the property might be. . . . Undoubtedly it would be proper, and in some cases advisable, to check this valuation against prospective rentals of the property, capitalized at a fair rate for similar properties; but standing alone, the latter appraisal is not a proper basis for a conservative loan."

With this decision in mind, and for the other reasons stated, Section II, Article 8, should be eliminated in its entirety and redrafted to conform first, to sound principles, and secondly, to allow sufficient latitude for application by competent appraisers in a practical way.

For similar reasons Section III, Articles 6 and 7, should be revised. From the standpoint of ethics only, the sole limitation on the appraiser in any case should be an honest opinion of present value in accordance with his best judgment, regardless of the basis upon which it is determined.

If the appraiser conforms literally to the Standards as now compiled, he would consider only earnings from operation and, if that is accepted, all that he could honestly and therefore ethically certify to would be that the capitalization of the current or expected earnings from the property would indicate an equity in favor of the owner of so much money. This is not the basis of a bond issue and would not even be a proper basis for a stock issue. *We cannot eliminate the physical investment from consideration.*

In the final analysis, the proper basis of value for an investment property, where it is to be used to determine the security for a loan, is the Fair Market Value. Normally this would be limited by the cost of replacement (summation method so-called), or the expected net income capitalized—whichever is the lower. It means simply the price that would be justified as between a willing buyer and a willing seller taking all factors into consideration, including the future operating outlook. This concept is not new, but it is correct and is the only basis which is subject to generalization in a code of rules and regulations.

We are all after the same thing; that is, the building up of sound appraisal principles and practice that will be a groundwork upon which to achieve national recognition for the Institute and the work of its members. We must be sure of our position; we must be fair in our interpretation; and we must provide simple rules and regulations which may readily be adopted

and applied by the entire membership. Anything short of this will defeat the very purpose we have in mind.

I am reminded of a quotation which appeared on the drop before the stage of an old theatre that I used to attend frequently as a boy. This drop showed the ruins of an ancient temple with many of the blocks scattered here and there, but the columns still standing and the general outline of the temple still in place. The inscription at the bottom read as follows:

"How fleet the works of man,
Back to the earth again;
Ancient and holy things
Fade like a dream."

An appropriate epitaph for an Investment Property! We are pioneering. We know that what we do now will fade, but if we build on a sound foundation, our efforts will remain as a guide for those coming in the future; and let us at least make it possible for them to realize the form and character of the structure which we conceived and the soundness of the materials that went into it.

B. Paper* by Henry A. Babcock, Chicago, Illinois

Certain real estate appraisers have taken the position that those sections of the "Standards of Appraisal Practice of the National Association of Real Estate Boards" which treat of Fractional and Summation Appraisals are so definitely restrictive that strict adherence thereto would prevent a procedure necessary in some appraisal problems. It becomes advisable, therefore, to examine these Standards from a critical point of view to determine whether or not adherence to the sections in question would prevent the use of a method necessary in certain classes of Appraisal problems. If the question is answered in the affirmative it becomes necessary to modify these offending clauses without, however, putting the seal of approval on a method of determining value which admittedly in many cases gives a false result. The drafting of such modifications may be a difficult task. In attempting this critical analysis I can draw only on my own experience, utilizing such letters as have come to the National Association of Real Estate Boards Headquarters to gain perspective on the problem as it appears to other professional appraisers.

At the outset it should be stated and clearly understood that the Standards of Appraisal Practice apply only to properties exclusive of agricultural, industrial, public utility, mineral, and forest properties. This limitaton of the field of application of the Standards does not mean necessarily that the principles of appraisal procedure set forth do not apply outside the types of property included, but simply that the Standards are a first attempt to codify practice in a distinctly limited category of properties with possible future extension to the other groups. However, this being the case, the methods of appraising properties in the excluded groups are not covered at all by the Standards, which fact disposes at the outset of all those objections based on the assumption that the Standards do cover properties in these groups.

Definition of the Term "Property"

An examination of the letters relative to the Standards received from appraisers indicates that a great deal of the objection to the restrictive clauses is based on a misunderstanding of the meaning of the word "Summation", which word is used in the Standards in a specific technical sense. To elaborate this point it is necessary to go back to the definition of property as stated in the document under discussion. "Property" is defined as all the rights to future benefits arising

*This paper was presented at one of the convention sessions of the Institute in Cincinnati, June 29-July 1, 1932.

from ownership. The appraiser is asked to determine the value of property; in other words, to determine the worth of the rights to future benefits arising from ownership. The first step in any appraisal is the segregation of the property under appraisement from all other property. No appraiser placing a value on a house and lot owned by Smith includes a 10 ft. strip of land belonging to Jones next door. The appraiser is careful to include only Smith's property. Furthermore he takes care to include all of Smith's property located in that place. If there is a garage on the lot he includes that; but he does not include the factory that Smith may own and which is located five miles away.

It happens that the house I live in is on ground owned by Northwestern University. My landlord rents that ground. He built the house and rents the use of the house and lot to me. Now, to be sure, the University owns the house and lot, but it owns it subject to the provisions of the lease to my landlord. The landlord has certain rights which are beneficial to him; therefore, he owns property. I, too, have certain rights as provided in the landlord's lease to me. So, in this case, there is one house and lot but there are *three* properties in the sense in which the word is used in the Standards. If the landlord wants to borrow money secured by his property he cannot pledge the house and lot because he doesn't own it. All he can pledge is his own property. In appraising the security for such a loan it is necessary to determine first just what it is that the landlord owns, in other words to distinguish between his property, the University's property, and my property. It is this type of reasoning which leads to the distinction between property in general and "*a* property" in particular; and "*a* property" is defined as all the rights to future benefits arising from a *single* ownership, or from a single ownership of a unit capable of use independently of other units under the same ownership. The davenport in the living room of a furnished apartment is "a property", in spite of the fact that it is owned by the same party that owns the land and building, because it is a unit capable of use independently of other units under the same ownership. For example, it can be sold to me and I can use it in my house. But this is not true of the building itself. The building cannot be sold without also selling the land (excluding those cases in which a building is sold and removed from the lot). The conclusion is, then, that the land and building together constitute a property (fee simple ownership) and that the *building* part is a fractional part of the property under consideration and that the *land* part is a fractional part of the property under consideration. Land and building are indissolubly wedded both in law and in fact, and the value of one part bears a relation to the value of the other part.

An Example

One writer has made the statement that in 80% of the properties appraised by him the value of land and building, taken together, was equal to the sum of the value of the land and the cost of the building, less depreciation, appraised separately. This may well be, but the other 20% of his cases require examination. The existence of over and under improvements, misplaced and inadequate buildings must be taken into account. Any large city contains many examples of such improvements. Consider an old dwelling district which has gone over to apartment use. Consider a block containing 10 apartment buildings and a good house sandwiched in between the apartments. If the land is worth $300 per front foot for apartment use and only $100 per front foot for single-dwelling use, the house property can-

not be valued by adding the value of the land for apartment use to the cost of replacement of the house less accrued structural depreciation. To illustrate: the lot has 50 ft. of frontage; the house would cost to replace, new, \$12,000; accrued structural depreciation is estimated at 30%. Ignoring the fact that the ground has a potential value of \$15,000, the value of the house and lot, as a house property, is: (50 × \$100) + (70% × \$12,000) = \$5,000 + \$8,400 = \$13,400. Now the land alone, for apartment use, is worth \$15,000, but the house and lot together are *not* worth \$23,400, for the very obvious reason that to develop the land value of \$15,000 it is necessary to demolish the house. The value of the property under the conditions stated is, of course, \$15,000.

In the above example, the land is a fractional part of the property and the building is the complementary fraction. Suppose that a land appraiser is asked to appraise the land only. His value would be \$15,000, and quite properly so. Suppose that a builder or architect is asked to appraise the house only. His value would be \$8,400; but it is obvious that adding these two figures together does not give the value of the property as a whole. The reason is that the two fractional appraisals have been made under different assumptions and assumptions that are incompatible with each other; that is they cannot both be true at the same time. The land appraiser has assumed that the lot is immediately available for apartment use while the building appraiser has assumed that the house will live out its structural life.

Definition of the Term "Summation Appraisal"

From this type of reasoning comes the definition of a "Summation" appraisal. This definition, in effect, says that a "Summation" appraisal is made by adding together separate valuations of land and building (for example) when such separate valuations of the fractional parts have been made under conditions which (1) *are*, or (2) *may be*, incompatible.

Now if the assumptions *are* incompatible the resulting "value" is a *false value* reached by fallacious reasoning. In such a case the result is not value at all and no appraiser can object to condemnation of such a procedure "as unsound, inaccurate and misleading", to quote the language of the Standards.

In the second case, namely, separate valuations of the parts under conditions which *may* be incompatible, the question is a little more involved. If the conditions are *not* incompatible, the addition of the values of the parts gives the value of the whole. But if there is any question about compatibility there remains the possibility that the conditions may be incompatible after all, and, if they are, the result is a false value based on fallacious reasoning.

It should be clear, therefore, that a total value of a property cannot be established by establishing the value of the building and ignoring the question of whether or not the land value was determined under the identical assumptions which were made in establishing the value of the building. If an appraiser values the land only and delivers a certificate of value to his client, that client may retain another appraiser to value the building. If the client adds these two figures together to produce a *false value* he may be misled by the result. If he adds them together with intent to deceive a third party, knowing full well himself that the result is false, the two appraisers have been parties to the fraud, albeit unwittingly.

The only ways which appear open to the appraiser to protect his client from being misled are (1) by appraising the property as a whole or (2) stating that he has appraised only a

fractional part of the property and that this value is invalidated if used *by others* in arriving at the value of the whole. The only way he can protect himself and his own reputation in case his fractional appraisal is used in conjunction with another fractional appraisal with intent to deceive is by including the invalidating clause, mentioned above, in his appraisal certificate.

Two More Examples

Fractional appraisals are dangerous when put in the hands of ignorant or unscrupulous parties (and after all no appraiser knows where his signed certificate is going to turn up). Two actual instances of false values derived by the Summation method may be mentioned. A land appraiser placed a value on a tract of land improved with an old, partially obsolete, office building making the not uncommon assumption in such cases that the land was worth what it would bring as vacant if sold for the purpose of serving as a site for a modern limit-height office building. No one familiar with land values in that locality would question his figures. The client retained an architect of the highest ability and reputation to appraise the building. The architect estimated cost of replacement and accrued structural depreciation and sent in his figures. The client added these two fractional values together and arrived at a total which *exceeded by 65%* the value determined for the property as a whole based on its earning expectancy, remaining economic life, risk factors, and land reversion value; and yet both the land appraiser and the architect had submitted figures which were correct under the assumptions each was making. The trouble was the assumed conditions were not the same and were mutually incompatible.

The second instance had to do with the refinancing of an old building. The right to the use of the structure was sold at the same time that the ground was leased. A bond issue was underwritten with the leasehold estate and building as security. The building only was appraised and nothing was added for a leasehold equity. On the face of things this looked like a conservative procedure. As a matter of fact the ground rent was so high that there was a deficit or *negative* equity in the leasehold and the value of the security for the leasehold bonds was considerably less than the fractional value represented by the building alone. The subsequent default was in all probability due to the excessive loan made as a result of the failure to take into account the possibility of a negative equity in the leasehold.

Two Restrictions Imposed by The Standards

The restrictions imposed by the Standards are two. In the first place, it is required that an appraiser making a fractional appraisal shall append thereto the "invalidating clause" to prevent misuse of the certificate of appraisal. In the second place the *deriving* of a total value by adding the values of fractional parts is ruled out. In the foregoing discussion it has been indicated that the correct total value of a property cannot be derived by adding the separate values of the parts *unless it is shown that no incompatible conditions were assumed in making the separate fractional valuations.* Perhaps the clearest way to show the absence of incompatible conditions is to appraise the property as a whole.

The thesis herein presented assumes that the appraiser desires to prevent so far as is in his power any misuse or misinterpretation of his findings.

It appears that the purpose for which an appraisal of the value of real property may be required are as follows*:

*This list may not be complete but is believed to cover most cases. — Author.

1. Determination of Security for Loan or other Financing.
2. Determination of Sale or Purchase Price.
3. Determination of Value for Accounting Purposes.
4. Distribution of Estates.
5. Determination of Awards in Expropriation, Condemnation and Damage Cases.
6. Determination of Value for Tax Assessment.
7. Determination of Value for Insurance Purposes.

Appraising for Life Insurance Loans

It will be agreed, probably, that in the first four classifications above, there is never any occasion for reporting a false value derived by an application of the "Summation" method. Perhaps the only question would arise in connection with the appraisal forms used by some life insurance companies in connection with their real estate loans. Some of these companies ask the appraiser to determine the "value of the land" and then ask the appraiser to determine the "value of the building" and add these two results in a space marked "total value". In my opinion the Standards of Appraisal Practice do not bar the appraiser from filling out these forms. It is to be presumed that the life insurance companies desire the total value of the property determined as accurately as may be, and that they also wish to know how much of the value is in the land and how much is in the improvements. In those cases in which the "market value of the land" is different than the actual value, as determined by appraisal, the appraiser can easily add a note or statement explaining the discrepancy. It is not to be presumed that any of the life insurance companies desire or require an appraiser to certify a figure as "total value" which does not coincide with his opinion of the *true* total value. Life insurance companies may also wish to know the market value of the land as collateral information, and this, of course, can be given. Life insurance companies are just as well aware as anyone else of the existence of over-, under-, and misplaced improvements and it is to be presumed that they want the existence of these conditions pointed out in the report on the property. When these conditions of over-, under-, and misplaced improvements *do* exist, we have precisely the situation in which the "Summation" method gives a false result.

The Element of "Good Will"

There is one case which merits special consideration in a discussion of fractional and summation appraisals. There are properties of which a fraction may be classed as real estate and the remainder as good will, business ability, management, or some other intangible. An example is a department store property occupied by the owner. In such cases it may be difficult or impossible to separate the value of the real estate from the value of the property as a whole because any allocation of net earnings between the business value and the real estate value must be made on an arbitrary basis, usually by estimating what a fair rental for the use of the real estate would be.

Requirements of Courts and Fire Insurance Companies

In the last three classifications in the list of purposes for which an appraisal of the value of real property may be required, namely; condemnation and damage cases, tax question of appraisal method which cannot be ignored. In those jurisdictions where rules have been laid down definitely by the courts, an appraiser must follow these rules if he is to testify in those jurisdictions.

Appraising to determine the amount of insurance to be carried and amount of loss sustained by fire or other casualty does not offer any difficulty as far as the Standards are concerned.

Such appraisals have to do with the value of improvements and hence involve fractional appraisals. As long as fire insurance companies are willing to pay losses measured by cost cf replacement less accrued structural depreciation; and as long as the courts hold that the insurance contract calls for such payments the appraiser is free to make estimates on that basis. While it is true, probably, in some cases, that the insured collects more than the *economic* value of an improvement destroyed by fire, that is a question for the fire insurance companies to settle. If an appraiser is asked to estimate the cost of replacement of a structure less accrued structural depreciation, there can be nothing unethical in his so doing. His protection against the misuses of such a fractional appraisal is accomplished by appending the "invalidating clause" above mentioned.

There remain two other classes of appraisals. In condemnation and damage cases the appraiser is required to submit evidence of the value of real property expropriated, or the value before and after the cause of damage or benefit has taken effect. In submitting evidence the appraiser must, of course, follow the rules laid down by the courts in whose jurisdiction the property lies. These rules must supersede the Standards of Practice. The ethical question does not arise. If the courts in some districts have held that, in determining the value of property taken, the value of the land and the value of the improvements must be separately determined, and if in obeying such injunctions the appraiser produces a *false* result the responsibility rests with the courts who handed down the ruling decisions, not with the appraiser. The Standards were never intended, in my opinion, to "overrule the law". It would be desirable, probably to add to the Standards a clarifying clause covering this point. On the other hand it should be remembered that judicial decisions are rendered in accordance with the evidence submitted and that it does not follow that such decisions are necessarily the decisions which would have been given had other evidence been submitted. Furthermore, such decisions can only be binding in those cases coming within the jurisdiction of the courts.

In appraising to determine tax assessments, the same remarks apply. Some of the more common cases arise in connection with Federal Profit and Income Taxes, Estate Taxes, and General Property Taxes. In these matters the appraiser, to have his testimony accepted, must follow the rules of procedure which legally govern in such cases whether such rules are contrary to tne Standards or not.

It does not follow, however, that because rules may exist contrary to the Standards and which are binding on the appraiser, that the Standards are wrong. Furthermore, it does not follow that because certain legally binding rules may be in force that these rules of procedure, in so far as they specify appraisal method, necessarily produce the true value when applied in practice.

If the professional body of real estate appraisers in this country are convinced that the "Summation" method of appraisal may give a false result in any particular application and are equally convinced that methods exist for valuing property without resort to this so-called method, then, it would seem the logical thing to give evidence, as occasion presents itself, to the end that these legal rulings be changed to agree with generally accepted appraisal practice. *In the last analysis these ruling decisions are based on professional opinion as expressed on the witness stand and as professional opinion changes in accordance with the progress of appraising, this progress should be reflected in judicial decisions.*

Conclusions

It would appear that the statements

and clauses dealing with fractional appraisals do not prevent an appraiser from using a procedure necessary in some appraisal problems as has been claimed.

In regard to summation appraisals, however, it may be that adherence to the Standards of Appraisal Practice would prevent, although unintentionally, a procedure necessary in some appraisal problems, as has been claimed. There may be cases in which such addition of fractional appraisals to derive the total value are necessary; but even in such cases the conditions under which the separate fractional appraisals are made cannot be incompatible if the method is to give a true value. If such cases do occur in practice, the intent of the clauses in the Standards can be more clearly stated to cover such cases. The following is a suggested amendment to Sec. III. Art. 7.

"It is unethical for an appraiser to issue an appraisal report on a property in which the total value reported is derived by adding together the values of fractional parts of the property, **unless it is shown that no incompatible conditions were assumed in making the fractional appraisals.**

"In particular, in appraising the security for a loan, it is unethical for an appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the market value of the land (or leasehold) as if unimproved, or the value of the land (or leasehold) as if improved to its highest and best use, and the reproduction cost of the improvement less accrued structural depreciation, **unless other and conclusive evidence is given that this result equals the total value of the property considered as a unit.**"

In the above, the words in bold face type are clauses added to the statements as they appear in the published Standards.

To cover cases in which an appraiser is obliged to follow an appraisal method which is legally binding in any particular jurisdiction, even though at variance with the principles stated in the Standards, it is suggested that the following article be added to Sec. III.

"In giving testimony as to the value of real property in any court or before any other legally constituted tribunal an appraiser may follow rules of procedure as to appraisal method legally binding in that jurisdiction even though such rules may be at variance with the provisions of these Standards."

The restrictions in the Standards of Appraisal Practice on the making of fractional and summation appraisals were aimed against a common practice which in many instances resulted in over-valuations which at the same time were capable of pseudo-justification. The division of responsibility between a land and building appraiser for the correctness of a total valuation resulted in the elimination of that burden of responsibility. In the opinion of the writer, no changes should be made in the Standards which will again open the door to admit the unsound and unethical practices which were condemned in the Standards of Appraisal Practice as originally written.

Discussion

Mr. Joseph B. Hall, Cincinnati, Ohio: It has always been my feeling that the Standards of Practice were striking at existing evils in the appraisal field; but that, for the sake of clarity, the wording of some of its provisions stand in need of revision. I think a false interpretation has been put on it in some instances and a correct interpretation in other instances.

As it is worded I have always been of the feeling that there has been some restriction placed upon the appraisal field.

I spent quite a bit of time in the real estate loan field. We saw a great deal of the practice, with which you are all familiar, of securing an appraisal of the land from a real estate man, and of the building from a contractor, and

adding the two together to arrive at the total value without regard to the actual income producing powers of the property. When such appraisals did approach the question of income it was usually in a superficial way, as so much per room, with expenses of thirty and thirty-five per cent, and then arrive at a final value and capitalize it at ten per cent or something along that line. And it is the method of analyzing the land separate and distinct from the building and adding the two together which I think is soundly condemned.

I am always interested in the example which my original employer in the real estate field used to give to me. He said: "Let us imagine a person building an office building on a farm. The cost of the land plus the cost of the building would not represent the value of the property upon completion." That shows the fallaciousness of the summation appraisal. I will grant you that the example is rather far-fetched, but you can gradually grade down until you get to misplaced improvements which actually do exist, where the building as such is not a proper development for the land, with the result that the addition of the market value of the land and the reproduction value of the building less depreciation does not equal the total value of the property.

On the other hand, I also feel that there have been many errors made on the income side, where appraisers have taken a building which may be a new type of development in a particular district as a result of which the building enjoys a rental which, after deducting expenses and capitalized at a certain rate, will result in a value for the property which is in excess of the going market value of the land plus the actual cost of the building. But that is an error, I feel, in the approach to the problem since it does not represent a proper analysis of the income producing ability of the particular property. The check against that is the actual cost of reproducing the building. If it is producing these higher rentals other people will similarly build buildings of that kind with the result that the rentals will gradually decline until the valuation based on income will approach the actual cost of putting up that particular type of property.

It is my feeling that both approaches to the problem are desirable as a check against each other, but that in an investment proposition the thing that we are interested in is the income producing ability of the particular property, and that the income producing ability of the property is the approach which should control, checked, if you please, by its reproduction cost.

It would be my definite recommendation, since the time is short, that a study be made of the Standards of Practice by a proper committee of the Institute toward the end of securing what may be a correct interpretation of the **principles** which I believe to be sound.

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VALUE

The Problem

"The Standards of Practice has defined values as follows: 'The market value of a property at a designated date is that competitively established price which represents the present worth at that date of all the rights to future benefits arising from ownership.' The courts have often defined value as the price paid when a willing and able buyer meets a willing and able seller. Some appraisers maintain that a given property can have different values at the same moment depending upon the purpose for which the value is found."

Paper* by Harry S. Cutmore, Chicago, Illinois

THE wording of the question before us, containing as it does at least three separate theories of this thing that we call value, is a fine example of the difficulty of reaching a concise and comprehensive definition of value which is applicable to all of the various types of real property. It is easily conceivable that a certain parcel of real estate ordinarily considered as being comparatively simple to appraise could not come under the first definition of value for the very evident reason that there is no "competitively established price" since there had been no recent sale or purchase of that particular property or of any similar property in the particular neighborhood which could have established such price.

Then the phrase "present worth of all the rights to future benefits" is about as definite as "How long is a piece of string". If the string reaches from one certain point to another the answer is easy; if the future benefits are defined their present worth could be determined. Future benefits open up the way to speculation and speculative values and I strongly suspect that capitalization of "future benefits" as present worth is vividly before us in acre after acre of abandoned subdivisions with pavements and sidewalks laid and weeds growing where homes were to be, and in countless apartment hotels and alleged business blocks with which bond holders and receivers are struggling. The willing buyer and willing seller, not withstanding the dictum of the Courts meet so seldom that we may be justified in believing that there just "ain't no such animal." It sounds paradoxical to contend that a given property may have different values at the same time, yet there is truth in the statement—as the basis of value is usefulness and the degree of usefulness is measured by the purpose to which property is put or to which it can be put (Lincoln Motor Case).

Much comment has been made about the basis of value regarding bona fide representative and ascertainable sales of property. I am convinced that at present there is lacking in practically every section of Chicago and for that matter in every metropolitan or suburban area of this country a sufficient body of sales of representative properties to furnish a basis for reliable valuation.

I now have before me the job of appraising nearly a million and a half properties in Chicago and Cook County and after careful consideration of the theory of the law and the practical operation of an assessment office I cannot avoid the conclusion that such an approach imposes an impossible task on the assessor. To a large extent this same restriction applies to any appraiser; and yet the Courts still cling to a careful attention to the detail of sales, thus enlarging the field of dis-

*This paper was presented at one of the convention sessions of the Institute held in Cincinnati, June 29-July 1, 1932.

pute and litigation and permitting the raising of hundreds of such points of conflict.

Furthermore the appraiser may discuss his valuation almost indefinitely and finally demand a judicial determination of it. This situation inevitably leads to an extraordinary amount of dispute and litigation. In the case of well improved investment property where net income properly capitalized should be an index to a fair value there is a vital question of the future net income,—sound economic theory requiring such analysis. However, we must all remember that the rate of capitalization operates with tremendous leverage on the final result. Of course, there can be no uniform rate of capitalization as the rate must be determined to fit the circumstances of each property or enterprise.

While I have never heard a positive statement of principle, it is logical to assume that less prosperous concerns should be favored by relatively higher rates of capitalization than those earning greater profits.

Frankly, I am appalled by contemplation of the duty thus imposed upon the average mine run operator. A variation of one or two points in the rate (say as between 9% and 11%) makes an enormous difference in the capital value. This, of course, is the weak spot in such a valuation approach,—personal opinion, guess work, and speculation will enter the picture to match opinions with the appraisers—then will come bargaining, negotiation, and "horse trading", then the Courts where superior power or smart lawyers will prevail with every technical data. But to return to the strict appraisal task, it will be readily seen that the greatest difference attaches to the assessment of the land. Sales of high type property are few and scattering and the diversity between the sites of several fine stores or commercial buildings is so great as to limit seriously the usefulness of any sale as evidence of the value of every other site.

The problem is quite evidently more complex and different than that which faces the appraiser of regular urban lands where several parcels differ from each other chiefly in size and position. It should be remembered that the so-called market for high class investment property today is too slender and irregular to furnish an adequate guide to the value of similar properties. This conclusion is supported by checking the results from the balance sheets of similar competing properties in various sections of Chicago and other large cities of the country.

I am inclined to the view that determination of value is not and cannot be accomplished by strict and literal adherence to any definition, however broad; that it must be as it always has been, the result of careful consideration by the appraiser of all the conditions and circumstances affecting the thing which is to be valued, giving weight to the competitively established price, bearing in mind not only present benefits of possession but future benefits, always using conservative glasses in viewing the years to come, hoping for rare contacting of tne two Williams—Willy Buyer and Willy Seller, and always remembering that purpose governs usefulness and that usefulness vitally affects value.

I would get away from all attempts at rigid definitions of value, for I hope that true appraisal declares the use of standards when they will apply, consideration of competitive price, if available, the judicial willing meeting point, present and future usefulness, and above all the exercise of judgment of the relative importance and affect of all the factors entering into the value.

And so, gentlemen, I conclude, with the notion that with such a background the value arrived at will be an appraisal provable to all reasonable

individuals and do away with any necessity of presenting a scholastic definition of value.

Paper* by Frank H. Taylor, East Orange, New Jersey

The following are but a few of the many definitions adopted and used:

I.

"Market Value is that price which under normal conditions and considering all forms of value should fairly be obtained for a property at a given time if properly advertised and a reasonable time allowed and with all the facts known as to its accruing benefits, uses, and capabilities.

Peter Hanson, Page 35, Natonal Real Estate Journal, May 11th, 1931.

II.

"Value of bread is expressed in need: the Value of a glittering diamond is expressed in desire. The Value of Real Estate is often the expression of both or either."

Alfred D. Bernard in McMichael's Appraisal Manual.

III.

"Market Value is the sum of the land plus a percentage of the Structural Value of the improvements, such percentage being determined by the extent to which the improvements utilize the possibilities of the land."

Blake Snyder in Real Estate Handbook, Page 49.

IV.

"Market Value is the expression, in money, of the meeting of the minds of a buyer willing but not compelled to buy and a seller willing but not compelled to sell."

(Legal definition quoted in "City Growth Essentials" by Stanley L. McMichael and R. F. Bingham.)

V.

"Value is opinion only, based on a consideration of all the varied elements involved."

John Zangerle.

VI.

In the case of Ringwood Co. v. North Jersey District Water Supply Commission (Court of Errors and Appeals of New Jersey, October 15, 1928), 143 Atlantic Reporter, Pages 369, 370, it was held that the rule for the determination of the value of land condemned is as follows:

"The Test is: What is the market value of the land condemned for any commercial value of its own, in the immediate present or in reasonable anticipation in the near future?"

"The rule limits the proof to the present condition of the land and uses to which it is naturally adapted, but excludes speculative and possible uses if improvements and changes were made. Matters that are collateral involving calculation of costs and profits are too remote."

"Valuing land taken under condemnation underlaid with sand and gravel, the sand and gravel should not be valued separately and apart from the land, but it may be shown to what extent the land is enhanced in value by the sand and gravel. The sand and gravel are component parts of the land. (Ross v. Commissioners of the Palisades Interstate Park, 90 N. J. Law, 461, 101 A. 60, approved and followed)."

The Standards of Practice has defined value as follows:

"The Market Value of a property at a designated date is that competitively established price which represents the present worth at that date of all the rights to future benefits arising from ownership."

In stating the principles in estimating "Market Value" it is obvious that the application varies somewhat in the several states and by several authorities. I shall, therefore, endeavor to state what appears to be the prevailing law throughout the United States in applying general principles affecting "Market Value".

I have not attempted to cite the many state authorities for these rules, but they may be found in Section 706,

*This paper was presented at one of the convention sessions of the Institute held in Cincinnati, June 29-July 1, 1932.

of the Third Edition of Professor John Lewis's work on Eminent Domain.

"In estimating the value of property taken for public use it is the Market Value of the property which is to be considered. The Market Value of property is the price it will bring when it is offered for sale by one who desires, but is not obliged to sell it, and is bought by one who is under no necessity of having it. 'Market Value' and 'Cash Value' mean the same thing. 'Market Value' means the fair value of the property as between one who wants to purchase and one who wants to sell an article, not what could be obtained for it under peculiar circumstances; not its speculative value; not a value obtained from the necessities of another. Nor on the other hand is it to be limited to that price which the property would bring when forced off at auction under the hammer. It is what it would bring at a fair public sale when one party wanted to sell and the other to buy."

"Market Value does not mean speculative value."

In estimating its value all the capabilities of the property, and all the uses to which it may be applied or for which it is adapted, are to be considered, and not merely the condition it is in at the time and the use to which it is then applied by the owner. It is not a question of the value of the property to the owner. Nor can the value be enhanced by his unwillingness to sell or because of any sentiment which he has for the property. On the other hand, the damages cannot be measured by the value of the property to the party condemning it, nor by its need of the particular property.

All the facts as to the condition of the property and its surroundings, its improvements and capabilities, may be shown and considered in estimating its value. Of course, circumstances and conditions tending to depreciate the property are as competent as those which are favorable. Says the Court in one case:

"Generally speaking, the true rule seems to be to permit the proof of all the varied elements of value; that is, all the facts which the owner would properly and naturally press upon the attention of a buyer to whom he is negotiating a sale and all other facts which would naturally influence a person of ordinary prudence desiring to purchase. In this estimation the owner is entitled to have the jury informed of all the capabilities of the property, as to the business or use, if any, to which it has been devoted, and of any and every use to which it may reasonably be adopted or applied. And this rule includes the adaptation and rule of the property for any legitimate purpose or business even though it has never been so used, and the owner has no present intention to devote it to such use."

It is said in some cases that it is proper to consider every element of value which would be taken into consideration in a sale between private parties. But this needs some qualification, since remote and speculative reasons are often urged by the seller in support of the valuation claimed. Some cases say that the owner is entitled to the value of the property for the highest and best use to which it is adapted. This is true in so far as such adaptation affects the market value. But the proper inquiry is, not what is the value of the property for the particular use, but what is it worth in the market, in view of its adaptation for that and other uses.

The Supreme Court of the United States has stated the law of values as follows:

"In determining the value of land appropriated for public purposes, the same considerations are to be regarded as in a sale of property between private parties. The inquiry in such cases must be, what is the property worth in the market, viewed not merely with reference to the uses to which it is at the time applied, but with reference to the uses to which it is plainly adapted; that is to say, what is it worth from its availability for valuable uses. Property is not to be deemed worthless because the owner allows it to go to waste, or to be regarded as valueless because he is unable to put it to any use. Others may be able to use it, and make it subserve the necessities or conveniences of life. Its capability of being made thus available gives it a market value which can be readily estimated."

It is recognized that some sort of definition of Value is the Crux of all appraising. Under the law of New Jersey and in a majority of other states the value of land and the improvements thereon have to be segregated and created separately — whereas the definition of Market Value as adopted by the National Association is all inclusive referring to present worth of future benefits.

A definition, from its very nature, is only a guide to assist in forming conclusions, the major and minor factors which enter into the computation of value, are really the most important guides in making an appraisal. It is true that in defining "Value" in real estate, we are compelled to recognize certain economic laws that are fundamentals. Therefore, in defining "Value" we must consider and provide for these economic fundamentals. But it is also likewise true that we must define "Value" in such a way as will meet with the acceptance of the Courts. In other words we cannot and should not attempt to set aside all the legal precepts. This must needs be a process that may take years to accomplish. The appointed Committees of the Appraisal Division studied for over a year to do what I have been drafted to do in a very short space of time. The efforts of the Appraisal Division were highly commendable but the results that they obtained in the "Standards of Appraisal Practice" are far from acceptable to many.

So many and varied are the circumstances to be taken into account in determining the value of property that it is perhaps impossible to formulate a rule to govern its appraisement in all cases. Exceptional circumstances will modify the most carefully guarded rule; but, as a general thing, we should say that the "Rule of Value" is to be estimated by reference to the uses for which the property is suitable, having regard to the existing business or wants of the community or such as may be reasonably expected in the immediate future.

The undisputed rule is that the Market Value of property as applying to condemnation proceedings is its value on the market for the highest and best use to which it can be put (Illinois Power and Light Corporation, vs. Parks, Etc.).

In conclusion, will we, as Realtors, as members of the Institute adopt a code of Value based upon what the best minds agree upon, disregarding decisions of our Courts or are we going to base our code of Value on the Courts decisions as to what constitutes value? I submit this should be our proper method in the last analysis as to the definition of value.

Discussion

Cyril R. De Mara, Hamilton, Ontario: Do you determine what amount the building increases the value of the land, or adds to the value of the land, in Chicago?

Mr. Cutmore: Yes, sir.

Mr. De Mara: In other words, if the building is not suited for the site it might be assessed only one-half of the cost?

Mr. Cutmore: Yes. It might add no value whatever to the land, and it might be a liability.

Mr. De Mara: Well, in that case would the assessment consider it as such?

Mr. Cutmore: Yes, sir. If you will be good enough to give me your card I will be glad to send you one of the assessment manuals which explains that matter.

Delbert S. Wenzlick, St. Louis, Missouri: I am very much interested in various comments which have been

made lately as to the difference between price and value. I think that the words market value are incompatible, if we are to accept the present definitions of value with the ability to command other commodities in exchange, while price must be expressed in our monetary unit of the dollar, and the dollar varies and fluctuates.

I wonder if real estate does not have one value and one price. Is there any particular difference in a share of telephone stock which sold at $312 in October, 1929 and which yesterday sold for $75.25? Which is the value and which is the price? We must establish some sort of a relationship between price and value if this appraisal Institute is going to do anything and is going to be anything but a laughing stock, and can't we do it perhaps by accepting the market price over a long period as establishing normal value?

Percy A. Gaddis, Jersey City, N. J.: I was very much interested in Mr. Taylor's paper, and his last conclusion which was that we must abide by the court's decision. That brings me to ask this question: **Which one?** Recognizing the many fallacies that have been made in the courts, and I hope there are not too many lawyers present, I think we ought to cut loose and have the moral courage to declare something ourselves. Look at that rule of court which we have heard for years, the theory of the willing buyer and the willing seller. Gentlemen, you know there is no such thing. Do you know of any sale in all of your experience where you could say there was involved the willing buyer and the willing seller, which is the ideal situation? It is not so. We are all motivated by second conditions.

I just want to sound a little word of warning here, and that is that I believe that the pendulum is swinging too far toward the economic and scientific side of questions, and there is grave danger in going beyond reasonable experience, and thereby reflecting discredit on our fraternity. When you endeavor to form judgment upon composite results and to establish the certain definite weight of various elements, you invariably reach a hypothetical figure which might be far different than your actual figure.

Ayers J. du Bois, Hollywood, Calif.: The question on which this discussion is based seems to me to have been largely passed up. The final sentence is: "Some appraisers maintain that a given property can have different values at the same moment, depending upon the purpose for which the value is found." It seems to me that that is entirely true. Property can have different values according to the purpose for which it is desired to find a value. We know that the value of property in use to an owner may be one thing, and it may be entirely different from the value of that property in exchange if a buyer were to exchange his dollars for it. The value as far as the tax appraiser is concerned is certainly in most cases a different thing than the market value of property. In California, where I come from, the assessors are supposed to find the fair value of property and that has been defined to be the sum at which a creditor would take the property from a solvent debtor. You can see that that is a different figure from the market value of property as we commonly think of it.

The definition most often quoted in California by the courts is that fair market value is the highest price in terms of money which a property would bring if exposed for sale in the open market a reasonable time being allowed to find a purchaser who buys with full knowledge of the purposes to which the property is adapted and of which it is capable. If you take that definition and study the various parts of it you will find that those elements

really do make market value. The word "value" is most frequently used by people when they have in mind "price". It is obvious that value is a price, although price is not necessarily a value, and I sometimes think that a purchaser often has two things to choose from.

Frederick M. Babcock, Ann Arbor, Michigan: I think that one of the great difficulties in understanding and trying to define value has been the very thing that Mr. du Bois has mentioned: The confusion between value and price.

Values, as we use them in real estate appraising most certainly are always expressed in terms of dollars and cents. A property is worth so much money. So that I think for practical purposes there is an identity between the two terms.

One thing which I think has been rather definite for years and years is that there is a difference between something which we can call market value or market price — and I am using those two terms interchangeably for this purpose—and the thing which we can call a warranted or a justified price. A great deal of our law is apparently predicated on the idea of price or value being what a property will command in the market, and very frequently we talk carelessly and say that the test of our valuation is found when the property is sold. I submit that that is not entirely correct. The figure we arrive at when we appraise real estate is not market price and is not market value. That is not what we are after. What we really are after is the amount of money which some one is warranted in paying for a piece of property. There is a distinction between what people actually do pay for property and what they should pay for property, and I think it is the latter figure that constitutes the security for a loan and the compensation to people where their property is taken away from them, and practically all the purposes for which we require valuations.

Mr. Wenzlick: I also submit that values are established by prices, and prices are not always the same.

Joseph B. Hall, Cincinnati, Ohio: Assuming we have a definition of what value actually is, the question here seems to be that some appraisers maintain that a given property can have different values at the same moment. Mr. Levy in his discussion indicated that he is of the feeling that it can only have one value. I am not inclined to agree with him, because we have situations where you may have the last lot in an amalgamation of lots when we are getting together a large holding where that lot may have one particular price. Now, the value of that particular piece is entirely different than the value of it under its own development. The same situation is true with a key lot in a large tract of industrial property. The appraiser under the particular circumstances will determine just what value is to be given in that particular instance.

E. J. Maier, Newark, N. J.: We have been discussing market value. Mr. Babcock referred to warranted value. I think that properties may have different values but I do not believe that they can have a different market value because when you speak of a warranted value you take the word "market" out of it. You take away the value which is controlled by the price paid.

President Philip W. Kniskern, New York City, N. Y.: The purpose of listing this question for discussion was a feeling on the part of some of the Committee that possibly one of the reasons that we get so much variation in the values found in appraisal work is because we are not all working with the same definition, implying that if we do not travel to the same point we

naturally do not come out together. And it was believed that one of the big jobs for this Institute to undertake was to develop by discussion or otherwise a definition of value.

Mr. De Mara: Mr. Hall brought out a very nice point when he talked about the last lot with a special value. I would like to ask his opinion as to how much extra value he would give that last lot if he wanted it for assemblage purposes.

Walter S. Schmidt, Cincinnati, Ohio: I think Mr. Hall is using the wrong word. The value of the last lot is no greater than the value of the first lot, but the cost of the last lot is greater. When you get all of the lots assembled then you can spread the cost over the whole consolidation.

Mr. Hall: I think if you will look up the definition of the term "value" that you will find the value to a specific owner is more than the value of that lot in the assembled piece.

Mr. Fred Babcock: I do not think Mr. Hall is referring to anything except that that last lot has two values. It has one value to most every one, and that is the value that you gentlemen are trying to insist upon. It has another value to this one owner who happens to own the other lots, and that is the only case where its larger value is maintained.

I would also like to mention the point brought out by Mr. Maier regarding the difference between market value and warranted value. Both things are market values. The distinction is between the purchaser who is typical and who does not know much about property but will buy under pressure, and the informed purchaser. In other words, three hundred people may buy subdivision lots at $1500 a lot, and that is market value. Still they may not have known what they were doing, and the value of those lots might be lower.

Mr. Maier: Aren't we in a position today where there is a distinction between those two values. For example today we have a situation where we have a present day market value, and we may have a warranted value which would be substantially more, considering that we feel that things are going to go along. In other words, today's prices may be depreciated below what we may consider a stable level. In that example I think you get a distinction between market value and warranted value.

Mr. Wenzlick: If you want to use the term "warranted value", I think you have got to agree that that warranted value is established, as Mr. Babcock says, by informed persons as a gamble on what the uninformed persons as a whole are going to determine as a price for that property in the future.

Sylvan Z. Rothschild, Cincinnati, Ohio: As I read this last line or two of this question I have a different reaction from what has been discussed here. I know that every man in Cincinnati, if not out of it, when looking at a piece of property and not thinking of a key lot or the last one in a subdivision, but a piece of property which can be used for any number of purposes, will, when making the appraisal, say, "Well, what are you going to use it for?" It has value according to the purpose it will be put to. If you are going to put up a store building in a business location you might say that its value, for the sake of argument, would be $20,000. But if it is going to be used for an oil station, then it might have a value of $27,500.

I maintain, and it is my personal opinion, that the fair value of that particular piece of property is $20,000, and if it is found that an oil station is adaptable to its location a premuim of $7500 might be paid.

Mr. du Bois: Mr. President, I think if you follow the remarks of the last gentleman to their logical conclusion you might say that if you put a house on the property it would be worth only $5,000.

To my mind the only fair value is tied up inexplicably with the idea of what is the most profitable use to which the property can be put.

Mr. Fred Babcock: There seems to be a very general idea among men with whom I have talked that every property is characterized by a single value, which is an integral part of the property just as if it were one of its columns. I do not think that is true at all, as has been shown by the example which was given a few minutes ago. If it is to be used for an oil filling station, the appraiser would say that in his opinion that property has a value of so much money based on such and such a use, and I do not think our valuation attempts mean anything in the absence of the additional statement.

I think that is one of the things that we ought to get rid of pretty early in our organization — the idea of value as a sort of an attachment to a property. If we make the value subject to the existing conditions our opinions will be much more sound.

C. W. Rex, Orlando, Florida: I do not see how you can say that there is a difference in value there. I believe that our principles of appraisal set out that the property is to be improved to its highest and best use, and if you do that you have only one value.

Mr. Rothschild: How would you appraise a piece of property if you did not know the use to which the property is to be put?

Mr. Babcock: All of our appraisals should be accompanied by a statement of the available program which we used for appraisal purposes. If you get a case where there are many possibilities, you can't appraise the property until you find out what is its intended use. If you appraise it without knowing that, it does not mean anything.

If you have a case where there is no declared use by the present owner, you would still have to adopt a program, and logically, you should adopt the program which represents the highest and best use of the property.

Mr. Schmidt: Mr. President, along that line, how would any of these appraisers appraise a right of way for a railroad? No railroad is existing and they are going through farm land, part of which is used for melons, part for alfalfa, part for corn, and part for wheat. You know that the use of that land is for farm purposes. To my mind, as the negotiator for a railroad going out to appraise that land, I cannot know what it is going to be used for, but when I go out and appraise it, it is farm land, and that is the only value I can put on it. The best use is for railroad right of way purposes.

Mark Levy, Chicago, Illinois: My own opinion, gentlemen, based on 25 years of rather active experience covering all phases of the real estate business, and all types of property in various parts of the United States causes me to reach the definite conclusion that there is only one fair market value on property, regardless of the use from which that value could be obtained.

I can appreciate the fact that there may be a difference of opinion on that question. I am answering the question purely as to what the fair market value of the property is. I realize that there may be some differentiation between the value fixed by a Board of Assessors or by a Board of Review for taxing purposes. I have often contended that tax officials are required to find the value of a particular property as is, as they find it, as of a specified date, while our values are made by

taking into consideration not only what the present fair market value is but what the present worth of all future rights to the ownership of that property may be. Every customer is willing to discount the future by paying a price which he believes that property is worth as of a specified date. All purchasers must take into consideration the pulse of the market. In a competitive market what will that property sell for? The fair market value is just as the Appraisal Division outlined, in my opinion, and that is the present worth of all future rights to ownership.

Now, I can see that there is a great difference between the value of a property as fixed for tax purposes and that estimated by an independent appraiser as its fair market value. I do not believe that the tax value is what we regard as the fair market value. Assessors are charged with the duty of fixing a fair market value, but it is contended that they have no right to take into consideration speculative or anticipated future worth of property that a purchaser takes into consideration.

Mr. Walter R. Kuehnle of Chicago, here today, who has had charge of the appraisal of 1,300,000 parcels of land for the Board of Assessors of Cook County, Illinois, has adopted that basis.

But, frankly, I contend that there is a justifiable difference of opinion in the value as found by the assessors and that found by appraisers who are asked to find the fair market value of a piece of property taking into consideration all of the benefits accruing to that property.

It is not my intention to convey the idea that I am of the opinion that a single parcel of property may not have a greater value to one person than it does to another, but such a situation is not strictly within the realm of fair market value. In single use, a single parcel has but a single fair market value. Of course, in a contemplated consolidation, one parcel might be particularly desirable, or hold the key to the entire plot. In such a case, that parcel, for that purpose, would no doubt bring a price beyond its fair market value. But nevertheless, its true fair market value does not change, in my opinion.

There was a time that I thought there might be a difference of opinion about that, but I have come to the conclusion that there is only one fair market value of property regardless of whether it is being used for bond issue purposes, or for sale purposes, or whether it is being used for book value purposes, or what other purposes it might be used for.

I think the question of inheritance tax value is the same type of value which we find in the present fair market value of any property.

My conclusions are not to be taken by you as the final position which this Association should take, but this is a matter brought up here for open discussion so that we all may have a better understanding of just what is right and what is the fair market value.

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ESTABLISHING THE CAPITALIZATION RATE

The Problem

"What Standards or bases exist for the determination of the Capitalization Rate to be used in valuing income? What are the considerations that should guide one's judgment in this critical part of the appraisal?"

Paper* by Mark Levy, Chicago, Illinois

TO the best of my knowledge no standards exist for the determination of the capitalization rate to be used in valuing an income. There are many factors to be given consideration in the selection of such a rate; so many, that in my opinion it is impossible for a definite set of rules or for a definite formula to be established and maintained for such a purpose. At the risk of transgressing from the subject as announced, I should like to repeat what I have so often said in prior addresses with reference to the use of any formula by which it is purported values of real property may be determined. I feel similarly toward the mere suggestion of a standard or formula to be used in the selection of a capitalization rate as I do toward the use of the so-called depth tables and corner influence tables. To me these are but shelters for appraisers who have preconceived opinions on values which they seek to protect.

However, I do feel that thorough consideration should be given to the bases used in the selection of capitalization rates. As a matter of course the rate or rates which may be selected for use by the appraiser are and will continue to be within his own jurisdiction and subject to the indications of his own judgment. There should be no attempt on the part of this or any other similar organization to select for an appraiser that rate or those rates which he should use in his work. On the other hand I believe that there should be a definite and organized attempt to indicate to Real Estate Appraisers in general those factors concerning capitalization rates which should be given consideration at all times.

By definition, the word "Capitalization" means "the act of converting into capital or cash." In other words, when an appraiser makes the computation commonly known as capitalization, he places a value upon an annual income, or anticipated income, by conversion into cash. The rate which he uses in this process is of course of primary importance. I am sure that it is not necessary at this time for me to enter into a detailed discussion of the variations in principal amounts which may be obtained by capitalizing a fixed annual income at rates varying only one or two percent. I do feel, however, that some discussion of the term "Capitalization" and the two methods in which it may be used would be warranted at this time.

There are two methods of capitalization, one known as the "Direct" method and the other known as the "Present Worth" method. I do not intend to defend either method, but I am going to take a few moments for explanation of each.

The direct method capitalizes an annuity as though it existed in perpetuity. For example, an annuity of $6,000 in perpetuity at 6%, has a value at any time, of $100,000, found by direct capitalization. However, an annuity of $6,000 for 50 years, for exam-

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ple, has a value as of the beginning of such period, at 6%, of $94,566, found by the present worth method. This value would of course diminish as the term of the annuity became shorter.

It is not uncommon practice for appraisers, in making appraisals of parcels of land which are leased for periods of 50 years or more at fixed net rentals, to capitalize these rentals by the use of the direct method, and announce the result of such computation as the value of such land subject to the leasehold, or in other words as the value of the leased fee. That such a method is in error is obvious, as shown by the example which I gave a moment ago, and is particularly in error if we do not consider the reversionary interest in such property.

In the selection of a capitalization rate or rates, there are certain basic factors to which the thorough appraiser gives consideration, whether he does so consciously or unconsciously. From his viewpoint, however, these basic factors are perhaps beyond his realm, as such factors might constitute an entirely separate and distinct study. They may be more within the jurisdiction of the economist, as they are primary considerations of the rates of return obtainable from the investment of capital in various types of enterprises and investments. Nevertheless, such a study should receive some attention at this time, even though briefly.

Late in the year 1930, Arthur J. Mertzke, then Director of the Department of Education and Research of the National Association of Real Estate Boards, prepared a table showing the yields afforded by 489 bond issues covering more than 25 different types of businesses or industries, these yields being based upon the then market value of such securities. Included in these 489 bond issues were 5 different classes of real estate. It was found that the average rate of return from the real estate bond issues was 7.21%, based upon their market value at that time, and that there was a spread among these issues from 4.71% to 13.75%. While it might be somewhat difficult or very nearly impossible to prepare such a table as of the present time, still this compilation will serve for purposes of example. As a comparison between the average yield afforded by the real estate issues and by those issues written on other types of investments several interesting facts were disclosed in this table. The average return available from obligations of the United States Treasury Department and the tobacco, steel, and meat packing industries, generally regarded as most secure, was 4.81%, with a spread from 2.87% to 10.7%. The average return available from the real estate issues was considerably higher, namely, 7.21%. In those industries generally regarded as most uncertain or hazardous, such as building materials, sugar, food products, textiles, etc., the average yield was 9.46% with a spread from 5.43% to 15.20%, these figures being of course considerably higher than the average among the real estate issues.

The question now arises as to how much consideration these rates of return should receive by the appraiser, and as to what conclusions may be drawn from the results of such a compilation. Primarily, of course, the conclusion is that the rate of return from an investment of capital bears definitely upon the risk involved in such an investment. Going back to the rates of return available among the real estate issues with an average of 7.21% what shall be our conclusion? Shall we regard 7.21% as a fair average rate to be used in the valuation of real estate as an investment? The answer obviously must be in the negative for various reasons, the first of which would be the great spread and variation in location and in type and amount

of security. The second reason, similarly obvious, would be that the yields available from these bond issues represented returns upon what was considered to be the safest portion of the properties in which investments were made. It is therefore clear that any average rate which might be adopted as a basis for capitalization would have to be appreciably higher than the average return among a group of real estate bond issues.

From our primary deduction, which was to the effect that the rate of return bore definitely upon the risk involved, let us consider the spread of the rates of return among some of the individual classes of real estate bond issues, as contained in the table previously mentioned. For example, among the 84 bond issues on office buildings, there was a spread of return from 4.71% to 13.5%. Among the hotel and apartment bond issues there was a spread of from 5.8% to 13.75%. I have indicated these spreads in return so that too much stress may not be laid upon the results of the compilation of this table. Such spreads should indicate conclusively that it is impossible even to establish one fixed rate for capitalizing properties which may be of the same general type.

Permit me at this time to call your attention to a practice which is becoming more and more common in the appraisal of real property. This is the practice of using two rates of capitalization in the appraisal of a single property — one for land and the other for improvements. It is usually found that a lower rate is used upon the land than that which is used upon the improvements, largely perhaps because of the popular conception that land may exist in perpetuity while improvements definitely have a terminable economic life. The lower rate for land is therefore chosen because of its stability. I call your attention to this practice, not because I believe it is the correct practice and to be preferred in place of the use of an over-all rate, nor do I care to express myself as to which method should be regarded as correct or most sound. However, I feel that any split rate of return as between land and improvements should result in practically the same value for the entire property as might be obtained by applying an over-all rate to the earnings of the property as a whole, in which case adequate deduction for the ultimate replacement of the improvements would of course have to be made.

In conclusion I should like to summarize for you what may be regarded as "The Appraiser's Ten Commandments", to be used in the selection of a capitalization rate or rates. These are not new considerations but have been publicized before. They are briefly, as follows:

1. The appraiser must be thoroughly familiar with local custom, local market rates for money, and current local interest rates. Investors in different parts of the country have different standards by which investments are judged and are attracted to real estate investments in some parts of the country at rates of return which would not prove attractive in other parts.

2. The element of risk involved is of course of great importance. Suffice it to say that the greater the risk involved the higher is the rate of capitalization and therefore, the lower the value.

3. The uncertainties appearing in the ownership of a parcel of real estate also bear upon the rate of capitalization, tending, as does the element of risk, toward a higher capitalization rate.

4. Another element also tending toward an increase in capitalization rate is the amount of management required of an investment in real estate. An investor in real estate either directly or through the purchase of mortgage paper must spend more time in looking after such an investment than would be required with respect to many other kinds of investment.

5. The marketability of the investment or difficulty of marketability also affects the rate of capitalization. In various types of real estate investments wherein difficulties might be encountered in withdrawing the capital investment an increase in the capitalization rate would be justified.

6. The security represented in an investment in real estate, particularly if the same be considered ample, would tend to lower the rate of capitalization. Such security might take the form of adequate improvements, cash or securities on deposit, as in the case of a fee subject to long term lease, etc.

7. The valuation of a type of real estate for which local custom might have established a preference would be justified upon a lower capitalization rate.

8. With faith in the "Chance of an Extra Gain" a lowered rate of capitalization becomes acceptable. Such a process actually amounts to an over-capitalization of future expectancy.

9. Certainty, to a great degree, in the future of a parcel of real estate will tend to lower the rate. The degree of certainty of future income of course depends upon many factors such as responsible lessees under long term leases, size and rate of growth of the district in which the property is located, and other similar items.

10. The location of a property also bears definitely upon the rate of capitalization. A normal rate may be employed if the surrounding district is considered to be stationary or permanent in its growth and if indications are that it will continue to be so. Factors indicating transition either favorable or unfavorable will of course have corresponding effects upon the capitalization rate involved. A difference in rate as between, for example, a Central Business District and outlying business districts is naturally to be expected.

Whatever basic standard the appraiser may choose from which to build up his final rate these ten considerations should be of material aid. His final rate will be a composite built up by using the basic standard as a starting point and balancing from that point the various other factors which tend to raise or lower the capitalization rate.

The final decision of the appraiser as to the rate of capitalization should, therefore, be an index to the security of the property under consideration. It should reflect what the local market and competition will support for the particular type of investment involved.

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PENALTY FOR OVER-VALUATION

Paragraph "a" of Section 21 of the Federal Home Loan Bank Bill, as enacted, provides as follows:

"Whoever makes any statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of a Federal Home Loan Bank or the board upon any application, advance, discount, purchase, or repurchase agreement, or loan, under this Act, or any extension thereof by renewal, deferment, or action or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both."

INCOME DISTRIBUTION AND CAPITALIZATION

The Problem

"I have noticed in several of the sample appraisals issued by the Appraisal Division or published in the National Real Estate Journal that a different capitalization rate is used for land and for building. For example, in the case of one improved parcel the net operating income was established at $37,000. Then it was computed that $27,800 per annum would pay 8% on the building and return the investment therein. This left a residual income of $9,200 which was capitalized at 6% to determine the land value. Now can certain individual dollars of income from a combination of land and building be separated and one identified as arising from the land while its mate is identified as arising from the building, and therefore be less valuable?"

Paper* by Frederick M. Babcock, Ann Arbor, Michigan

THE division of total returns jointly produced by a parcel of land and a building, is admittedly arbitrary. Such a distribution of returns is justified solely by the fact that the parts may be considered to represent investments of differing characters. Land is usually considered to be a better investment than a building because the land, as such, is usually available for a greater number of uses. As an investment it is more flexible and diversified. Furthermore, land is not, in general, subject to as great a decline in value as is the building. Much land is likely to enjoy a considerable enhancement in value while building values more generally decline. In most cases a parcel of land does not have a limited life of usefulness. Most buildings have finite limited lives.

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It is therefore presumed that an appraiser will arrive at a more accurate valuation if he deliberately takes into account these differences in investment characteristics. While it is true that the total income is jointly produced, it is not necessarily illogical to divide the income by attributing portions of it to the productivity of the several natural parts of the property. However, it is obvious that in doing so, either the land or the building will require separate appraisal and that the income attributed to the other will be residual in character. There is no suggestion in this which would indicate a separate appraisal of both the site and the building. It is suggested that it is logical to divide jointly produced total returns by allocating one portion to a separately appraised part and the remaining portion to the other part.

Thus the use of fractional capitalization rates is warranted by the fact that land parcels and buildings appear to have different investment characteristics and by the opportunity which such a procedure provides of taking the different kinds and amounts of hazard into account. In other words the division of the income and the application of different interest rates is according to a method which is at once both arbitrary and perfectly logical.

Paper* by J. Alvin Register, Jacksonville, Florida

THE correct separation of certain individual dollars of income derived from a combination of land and building is necessary and can be accomplished only in proportion to the part that land and building, respec-

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5. The marketability of the investment or difficulty of marketability also affects the rate of capitalization. In various types of real estate investments wherein difficulties might be encountered in withdrawing the capital investment an increase in the capitalization rate would be justified.

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tively, function in producing the total net earnings.*

The property as a whole produces benefits in the form of net earnings upon which the value of the property as a whole is based.

The property producing the total net earnings consists of two parts, land and building, and each unit is affected by different economic factors, which factors are not always the same for each unit. It is therefore necessary to separate the units so as to identify which dollars are arising from the land and which from the building, in order to determine the proper rate per cent to be applied to each, in determining its value. The rate used in each case must reflect all of the economic factors applicable to each unit.

The earnings from the building are limited since buildings wear out and improvements must be replaced, whereas, the earnings from the land will continue on indefinitely either at the same, a higher, or lower return. In considering the distribution of income between land and building, we must determine which part of the property is to be made residual. Three factors enter into this determination. Is the land (1) Improved to its highest and best use; (2) Over-improved; or (3) Under-improved?

If the property is improved to its highest and best use the earnings from the property should be sufficient to preserve the investment intact and to yield an income commensurate with that offered by other investments in the competitive market. In this case the land is made residual.

In order to maintain the investment in the building there should be set up a level annual sum to be deducted from the net earnings to amortize the value of the building, and at the same time to pay a proper rate of interest on the declining balance during the remaining economic life of the building.

By attributing a portion of the net income to the building which includes the level annual sum, and deducting this level annual sum from the total net earnings, it would give a residual income to be attributed to the land. The residual income attributed to the land during the remaining economic life of the building is fixed, but the earnings from the land, after the life of the building, may fluctuate according to its future use.

The interest rates to be used in determining the value of the component parts should reflect all the risk involved, such as the accuracy in estimating the earning expectancy, as to amount, duration, and variation. For example, the building may become obsolete due to change in use thereby affecting the economic life, in which case the earning expectancy from the building has been over-estimated. The land on the other hand may be affected by the change in use either to a higher or lower use.

Discussion

Philip W. Kniskern, New York City (Mr. Richard King, presiding): If I may take the floor for just a moment, I want to tell you that it is hard for me to sit up there when these discussions are going on because I have many thoughts on all of these matters. I do want to present one manner of approaching this question. In the first place, when we set up $37,000 of income (the intention of the problem is to strip all its details and get at principles) from this property, we have, in effect, converted the land and the building, and the mortar, the brick, and all of those things into an annual annuity. When we have developed

*NET EARNINGS: "The difference between accrued revenues and accrued expenses, including depreciation and interest on funded debt, but not including any retirement payments on funded debt or payment of dividends on stock," quoting from the Standards of Practice.— Author.

that annuity to our satisfaction, we then use the capitalization method to determine the capital value of that annuity. When we use the capitalization rate we first determine that by the characteristics of that annuity and some of the characteristics of the investment, but only those which are reflected in the annuity itself.

So that I doubt if we can characterize our income by characteristics of investment. Rather we must consider the hazards that are affixed to that annuity, and the certainty of those other features which Mr. Levy spoke about.

I, too, am looking for light; but the thing which is difficult for me to visualize here is expressed if I state these figures in a little different way. In that division of income, there is roughly, $30,000 assigned to the building and $10,000 to the land. In other words, bringing it down to smaller figures, let us say that I am a tenant on the 15th floor of an office building and I am paying $4.00 per square foot for my offices. Under this theory Mr. Register, for example, takes $3 that I pay and he says that applies to the building. The fourth dollar which I pay he applies to the land. I have a feeling that the more important characteristics of that income are the assurance of the income which goes back to me as tenant or the replacement of me as tenant than arbitrarily to divide those dollars between land and building. If I pay $4 rent it is difficult for me to see that $3 of that $4 is worth only an eight per cent basis, and that the fourth dollar is worth a six per cent basis. In other words, of the $3 that I pay each dollar is worth $12 capital value, and the fourth dollar out of the same check and from the same source and with all the same income characteristics is worth $16, against $12 capital value of each dollar of the other three.

Percy A. Gaddis, Jersey City, N. J.: There has been quite a question among a good many of the minds here as to whether the land or building should be residual. I think that if we should make the building residual rather than the land we would come to this unfortunate position: that the price of the land that that building may stand on may be different from a piece of land similar to it next door which has the same potential earning capacity. I should hate to put myself on record as saying that one-half of the block was worth more than the other unless there was some reason as to trends or nearness to a certain section, etc. But assuming that those things were the same I should hate to appraise two buildings and say that the land was worth a different amount under one building than under the other. So I think it is much sounder to take the land as being the basic value and the building as residual.

Ayers J. du Bois, Hollywood, Calif.: A couple of years ago there were several very fine articles written by Mr. Kniskern appearing in the National Real Estate Journal dealing with capitalization rates. There was a very illuminating example about a leasehold, and a fee, and contrasting the hazards and risks and burdens entailed in the ownership in each of those portions of the property.

I just want to summarize for you four cardinal points that Mr. Kniskern stressed as being characteristics of an ideal investment: First, there must be absolute security of principal; second, there must be no management burden; third, there must be a certainty of the payment of dividends or interest at the periods when it is anticipated or agreed they were to be paid; and fourth, there must be absolute certainty as to the amount of those dividends or interest that it is agreed shall be paid.

Now, there is no ideal investment; but if there were such a thing it would have those characteristics. Mr. Kniskern implied that there was a starting point for the appraiser as to what capitalization rates he might apply in a given problem in contrasting the investment under consideration with the ideal, and in so far as it is possible for him to use his judgment and just go down the line until he arrives at a resting place.

I think those principles could well be applied in this question now before us as to whether different rates should be imputed to the earnings from a building, upon a piece of land, and the earnings from the land itself. Suppose you had just a vacant piece of land here. Why does it have value? It has value because of its potentialities, because of its possibilities of producing earnings. Our appraisal methods very frequently include an assumption that the value of the land will remain at a given level in perpetuity. The graphic illustration before us implies that. But suppose you put a building upon that land. Let us ask ourselves first as to the security of the principal. We are not afraid that we will lose the land, but when you put a building upon it you certainly are introducing certain hazards into the picture by sacrificing a portion of your capital.

Let us ask ourselves, second, as to the burden of management. With a vacant lot you have practically no burden of management although you must pay your taxes.

In the third place, let us ask ourselves as to the certainty of payment of dividends or interest, and we realize that there are great uncertainties in any improved property, which you all know about.

Fourth, what about the certainty as to the amount of the return that may be expected? That uncertainty has been increased.

Those things indicate that by the addition of the improvement to the land we have increased the hazards of the ownership of the property, so that the investor buying the improved property would value the entire property upon a higher capitalization rate than by just considering the land by itself, and the only way that that rate could be increased would be by attributing to that portion of the property represented by the building a higher rate than you would impute to the land itself.

Again, the building is subject to destruction; the land you do not anticipate can be destroyed. So I think that also is a justification for the use of the higher rate.

But let us ask ourselves once more; in any process of this character, does the process itself determine the value? I would say "no". I do not think that any process determines value. I consider that any process that the purchaser uses is merely a test which he is applying to a given example in order to shape his conclusion, and he may accept the result of that test or may reject it.

One other point that was raised on the matter of the building being residual. Sometimes the improvement of a piece of land results in earnings which if capitalized in a useful way brings about a third value that is far in excess of the demand price of the land and the production cost of the building. Are we warranted in saying that the value of a property is equivalent to that figure? Probably not; there is another item that comes into the picture—profit. But where you have profits realized by the improvement of land you are pretty apt to see a reproduction of that improvement so that those profits will eventually disappear and the capitalized value will decline to meet the demand price.

Therefore, in applying the capitalization process, whether you are making the land residual or the building residual you always have to come back in the last analysis to the question of your common sense based upon your experience.

President Kniskern: I would like in this discussion for you to leave out the question of the residual land because we are trying to work on a capitalization rate. It is all right if you want to use that to demonstrate the rate; but let us try to keep to the point. I do not mean that as criticism, Mr. du Bois.

J. Alvin Register, Jacksonville, Fla.: Mr. President, I would like to say that I have computed those figures and found that in this problem the total tentative value, based on the income given, is $466,305 and shows a 7½% return on that value.

E. J. Maier, Newark, N. J.: What I have heard so far confirms very closely my ideas.

Mr. Register: In using six per cent on this land we are assuming that the rents will continue at $37,000 a year to the point indicated on the chart, but suppose in ten years from now the earnings will go up or will come down. If our earnings are liable to come down in ten years, would we use six per cent? No. Suppose we run it right into perpetuity with no change at all in land value? Would we use six per cent? That is something to think about. Will the land increase in value, decrease, or remain stationary?

Cyril R. De Mara, Hamilton, Ontario: On the question of rate, the matter of location is a very important thing. I noticed that in different parts of the United States, for instance, Florida and California, there is quite a different sentiment toward the ownership of real estate than that found in Iowa and out through the middlewest, and public opinion actually plays a part in the value of real estate. In some sections the public are much more real estate minded. They look on real estate much more favorably as an investment for surplus funds than they do in other parts of the country. I think that has a bearing on the matter of value and price, and consequently investment value, and that is one of the things that the Institute will be able to develop. We will be able not only to get national figures but district figures, just as there are district rates for money on the Pacific Coast, for instance, where they are higher in certain sections than where there is a lot of money available.

Mr. du Bois: If you can see a decline in land earnings certainly it will affect the rate at which any buyer would be willing to purchase, and contrariwise if you could foresee a rise, it would also affect that rate. There is not anybody in the room here, I am sure, but what can go back seven or eight years ago and remember when apartment structures in any part of the country were purchased readily and quickly upon a five or six per cent basis, but you could not get anybody to buy them a year ago on anything less than perhaps a twelve per cent basis, and today they do not want them at all.

Now, one other thing about splitting of your rate. It is apparent to everyone, I believe, that if you were to borrow capital to erect a building you undoubtedly would have to pay a higher rate of interest than you will commonly find applying to the leasing of land over long periods of time, and to me the investment of capital in a structure is quite similar to the matter of borrowing money, whether you use your own capital or borrow from somebody else. If you are putting your own in, you certainly are entitled to the same amount of return that somebody else would desire if he were putting money in by loaning it to you.

RENT RESERVED IN LEASE ABOVE RENTAL VALUE

The Problem

"In stabilizing the income from a piece of improved business property that is under lease to tenants that can and will pay until October, 1934, four years to run, at $8,000 per year, where the annual rental after expiration of lease, unless lessee renews, will probably be only $3,000 per year—would you apply a ten year average rental of $8,000 for the first four years and $3,000 for the remaining six years, making a total of $42,000 for the ten years? The replacement or fair value of the property is probably around $35,000 but the owners are asking $50,000 owing to its potential value."

Paper* by Philip N. Arnold, Philadelphia, Pennsylvania

THE gross income, as given in the question, cannot be analytically stabilized from the amount of information given. In addition to the information in the question the data necessary for this stabilization should include:

1. The replacement cost of the building.
2. Market value of the land with the above improvements.
3. The gross annual expenses, including therein fixed charges and operating expenses.
4. An analysis of future earning capacity with particular reference to:
   A. Potential value of the area surrounding the property.

   B. The trend of vacancies in this vicinity.

   C. The rental situation in the locality, to include whether or not the rental is representative or based on present chaotic conditions.

   D. The demand and supply of properties of this nature.

   E. The growth, activity or decline of the section wherein the property is located.
5. The particular features that make this property more or less valuable than similar properties in the immediate vicinity.

You may ask what all this has to do with stabilizing the gross income in the above question. To the realty appraiser of yesterday the information above would be considered unnecessary, but today in arriving at the final results, realty appraisers must draw conclusions based on an analysis and weighed interpretation of all the factual data obtainable.

In the property under dicussion the sound investor would demand a net annual income sufficient to amortize the capital investment in the building during its economic life and at the same time return at least eight percent on the unamortized remainder of the capital investment.

The replacement cost of the land and buildings under question is in the neighborhood of $35,000. For purposes of presentation the economic life of the building has been estimated at 30 years and the amount of net annual income necessary during this period to amortize the capital investment of $35,000 and pay at least eight percent on the unamortized capital balance is approximately $3,100. This does not take into consideration the reversion value of the land with its enhanced value due to the potential possibilities stated in the question, nor does it con-

*This paper was presented at one of the convention sessions of the Institute in Cincinnati, June 29-July 1, 1932.

sider that the normal percentage on land averages closer to six percent.

The gross annual income from this property should be sufficient to realize a net annual income of $3,100 and to cover the gross annual expenses. Again for purposes of presentation we must make another assumption — the operating expenses on this property, in our opinion, would approximate $1,500. This would necessitate a gross annual income of $4,600 which would have to be obtained in order to consider this property a sound investment and indirectly to serve as a measure for stabilizing the income.

In stabilizing the gross annual income from this property we must consider:

1. The present annual lease of $8,000.
2. The rental value of this property in October, 1934, to the present tenant as a going concern.
3. The rental value of this property to other classes of tenants in October, 1934.
4. The stability of the estimated rental of $3,000 after October, 1934.
5. The influence on future rentals due to the potential value of the property.
6. The fair rental as of today.

The present annual lease of $8,000 is not representative but rather is due to the good fortune of the owner in securing a tenant willing to pay an annual rental in excess of the fair rental value of the property and this would seem to be corroborated by the fact, as further stated in the question, that should the present tenant deem it unwise to renew the lease in October, 1934, that the rental would probably be only $3,000 annually. Therefore, it is my opinion that in stabilizing the income the present annual lease of $8,000 should be disregarded.

On the other hand the property under discussion may be of such business value that the present tenant in October, 1934, would be willing to pay an annual rental in the neighborhood of $8,000 charging off a certain portion of the rent, as one would in the purchase of an old business stand. To the so-called good-will (or in other words, a value built up by the present lessee as a going concern).

If, in October, 1934, the present tenant does not renew the lease it may be that due to its stated potential value this property would be equally desirable to another tenant.

Taking all things into consideration it is my opinion that the estimated annual rental of $3,000 after October, 1934, seems to be a rather too drastic outlook and from a sound business investment standpoint unwarranted as it would be a sacrifice rental well under the gross annual income of $4,500 necessary to be obtained in order that the property may be operating on a paying basis.

If this property were under lease at $8,000 per annum for the first four years and $3,000 per annum for the next six years it would be fair, due to the length of the lease, to average the gross annual income at about $5,000 per year, but inasmuch as the present lease expires within the next three years and the $3,000 for the following six years is only a supposition based on no tangible facts it does not seem to me that it would be fair to use an average of these figures in arriving at a stabilization of the gross annual income. In my opinion a property that has the stated potential value and is bringing $8,000 per annum at the present time would not suffer an annual rent reduction to $3,000 and therefore it is concluded that the present gross annual income figures as given in the question cannot be consid-

ered in stabilizing the income from this property.

In my opinion to stabilize the income from this property, with the information given, we can only consider what the fair rental value would be today and balance this with the estimated gross annual income necessary to make this property a sound investment and from a study of the question it is my opinion that this average gross annual income should be stabilized in the neighborhood of $5,500.

However, if, as stated, the property under question has a potential value of $50,000 then the gross annual income that should be obtained from this property, taking into consideration this potential value and all future enhancements of value for stabilization purposes should be fairly placed at about $5,000.

Therefore, in my opinion:

1. A stabilization of the income on the basis of a fair rental today of $5,500 annually with the replacement value set fixedly at $35,000 and
2. A stabilization of the income based on a rental of $5,000 per year, the lower figure in this case being due to the potential value of the building and the owner's estimate of the value at $50,000.

Paper* by Henry A. Babcock, Chicago, Illinois

THE phrase "stabilizing of income", although not used in the Standards of Appraisal Practice, has been widely mentioned in recent appraisal literature. It refers to a process of substituting for current income some other income figure, which in the judgment of the appraiser, represents a "normal" income. The expression has been applied particularly to cases in which current income is in excess of (or less than) the assumed normal. For example, an apartment building containing 24 apartments, 16 of which are rented at $100.00 per month would have a current effective gross income of $1,600.00 per month or $19,200.00 per year. If the appraiser were to assume that under "normal" conditions, 20 of the apartments would be rented and that the rent would be $110.00 per month, he would say that the "stabilized" income would be $2,200.00 per month or $26,400.00 per year; and would base his valuation on an effective gross of $26,400.00 per year.

The phrase "stabilized income", whether applied to gross or net income, has a reasonably definite meaning, in the sense that it expresses a fair average estimate of what the income will be as soon as the unusual circumstances which give rise to the higher (or lower) current income have changed. A building in process of leasing, for example will have a current income less than it will have when the leasing has progressed to the point when a normal occupancy has been reached. Conversely, as in the question submitted, an unusual lease may assure an income from a property for a limited time, very much in excess of the income that could be obtained in the absence of the unusual (or possibly unique) circumstance.

However, to substitute the "stabilized" income for a prediction of the "earning expectancy of the property" results in an error in carrying out the appraisal process.

In the question submitted for answer, the data are insufficient—so that the numerical solution cannot be given. For the sake of giving an arithmetical solution, however, let us assume the missing data. These data are: operating expenses, taxes, vacancy and contingency allowance, land value (or sound value of improvements), equivalent remaining econom-

*This paper was presented at one of the convention sessions of the Institute in Cincinnati, June 29-July 1, 1932.

ic life, and interest rate applicable. Assume, therefore:

Operating expenses including taxes—$1,600.00 per year.

Vacancy and Contingency Allowance—10%.

Land Value—$20,000.00.

Equivalent remaining economic life—20 years.

Interest rate—7%.

The earning expectancy is then:

First 4 years, $8,000.00 - $1,600.00 = $ 6,400.00

Next 16 years, $3,000.00 x .90 - $1,600.00 = $ 1,100.00

Reversion of land value (after 20 yrs.) = $20,000.00

Valuation:

(a) present worth of $6,400.00 per year for 4 years.

(b) + present worth of $1,100.00 per year for 16 years, deferred 4 yrs.

(c) + $20,000.00 deferred 20 years, all at 7%.

(a) = $6,400.00 x present value of 1 per annum for 4 years = $6,400.00 x 3.3872 = $21,678.00

(b) = $1,100.00 x difference of present value of 1 per annum for 20 years and present value of 1 per annum for 4 years = $1,100.00 x (10.5940 - 3.3872) = $ 7,927.00

(c) = $20,000.00 x present value of 1 due 20 years hence = 20,000.00 x 0.2584 = $ 5,168.00

TOTAL = $34,773.00

or, in round numbers, $35,000.00

On the other hand, the arithmetical average of the effective gross income over the 20 years period is:

$$\frac{4 \times 8{,}000.00 + 16 \times 2{,}700.00}{20} = \$3760$$

which, less $1,600.00 expenses, gives an arithmetical average for the net earnings of $2,160.00. The valuation, on this erroneous basis, would then be:

(a) 2,160 x present value of 1 per annum for 20 years = 2,160 x 10.5940 = 22,883.00

(b) $20,000.00 x present value of 1 due 20 years hence = $20,000 x 0.2584 = 5,168.00

Total $28,051.00

or, approximately 81% of the correct figure.

If the excess earnings for the first four years are ignored entirely, and the "stabilized" net of $1,100.00 per year is used, the valuation, on this erroneous basis, would be

(a) $1,100.00 x present value of 1 per annum for 20 years = $1,100 x 10.5940 = $11,653.00

(b) $20,000.00 x present value of 1 due 20 years hence = $20,000 x 0.2584 = 5,168.00

TOTAL $16,821.00

or, approximately 49% of the correct figure.

In any such problem as the one cited, it appears necessary to

> "estimate as a time series the future benefits arising from ownership, expressing these benefits as a series of monetary returns. This series will consist of a forecast of net earnings over the remaining economic life of the improvements from the date at which the value obtains, and a forecast of the amount which can be obtained for the remainder of the property at the end of the earning period",

to quote the language of the Standards of Appraisal Practice.

Discussion

Morris Goldfarb, Perth Amboy, N. J.: This seems to be a rather lop-sided question, as it is here. The property is under lease at $8,000.00 a year for the next three years, and because of the economic conditions only three thousand dollars can be obtained for this property, and if only $3,000.00 can be obtained in the immediate future that is all we have a right to expect. If that is so I would stabilize the rent at $3,000.00 a year, and then after that appraisal is made I would add to the value of the property the present worth of $5,000.00 a year for four years capitalized at a very high rate of ten or twelve per cent because of the extra amount of money which is being forced because of the lease.

President Philip W. Kniskern, New York City: This is an actual question. It was put in the program because it is such a prevalent question today.

Walter S. Schmidt, Cincinnati, Ohio: Shouldn't the appraiser in that case consider whether the tenant is going to be able to pay that excess rent for the four years under present economic conditions, or whether before the end of four years he is going to have to go to the owner and ask for a reduction.

President Kniskern: That is what Mr. Goldfarb infers by raising the rate.

Cyril R. De Mara, Hamilton, Ontario: In the question, it refers to the fair value of the property being $35,000.00 and it states that the owner is asking $50,000.00 owing to its potential value. That brings up a point which I have discussed quite often. The owner usually thinks that his property is worth the current prices that are being paid plus a bonus, and if that is left in the question I wonder if we might not get the impression that that was actually the case. Isn't it actually the case that the fair value takes the potial value into consideration. The present value is the present value plus the future benefits.

This also brings to my mind that the country is going to develop probably in sub-centers, and the static downtown sections might have a potential lessened value over a period of twenty or twenty-five years rather than a potential increased value.

J. Alvin Register, Jacksonville, Fla.: This question says that the property is under lease to a tenant who can and will pay until 1934 at $8,000.00 a year. Now, we can take the present worth of $8,000.00 for four years, and even at 8% interest we would get a present value in those three years' rent of about $24,000.00. Although the property is worth only $35,000.00 today, we would certainly get a figure not less than approximately $24,000.00 or $25,000.00 added to that. I do not see how rents can be stabilized when a piece of property is under a lease.

C. W. Rex, Orlando, Fla.: I think that Mr. Register is absolutely right. If we assume what the question states, which is that the lease is good, there is a definite annuity for four years. You have a present value of that annuity. You can't discount it by saying that you are going to stabilize $8,000.00 rental at a lower figure when you know it is good. I think the man has that equity in it and I think Mr. Register is right.

Mr. Goldfarb: It seems to me very unfair to charge to the property a condition which you might have present. For instance, down in my town we have Woolworth abandoning a nine year lease because the trend was away from that store. Now, then, the property is vacant, and to take Woolworth's rent for the next nine years as

stabilized rent would certainly be unfair to that property, because that is a forced lease. Woolworth may go out of business. The way I would handle that would be that I would stabilize at the rents we get now and add to my value the present worth of the difference between what Woolworth was paying and what you can get now. Why charge a fictitious rental to the property?

President Kniskern: Your thought is that you would stabilize the rental value on the property at the rate which the property deserves. Then you would recognize the additional income that comes out of the lease, and your capitalization rate on it would more or less reflect the credit of the tenant.

Mr. Goldfarb: That is right.

President Kniskern: I do not know how the experience has been around the rest of the country, but in our metropolitan area, which includes Mr. Goldfarb's territory, we have had many cases of people who looked as impregnable as Woolworth, but we have found that they do not pay their rent any more.

Mr. Frederick M. Babcock: I am rather fed up with this word "stabilized", and I want to get it off my chest if we are allowed to go further on that subject, and with the permission of the chair I will do it.

This whole concept of stabilization of income frankly gives me the "willies". I think historically it is based on the fact that there are a lot of men who are afraid of arithmetic in handling incomes. They want to get it done so it is simple, so they can get at the answer quickly. We are going to have good times some time, in my opinion. Well, now, let us assume a situation where an owner did not have the advice of a good appraiser and a good Realtor and permitted his corner drug store to be rented at an extremely low rental to a good tenant, say $200.00 a month, when even the inside stores can be rented at $400.00 or $500.00 a month. The value of that property is damaged by the presence of that lease. You can't stabilize it because he made a poor lease. The real value is there. The lease is there and that is a real thing. It is a legal document. That lease is part of the property and it is impressed on the value of the property. There you have the reverse case to that cited in the question.

Now, of course, Woolworth may go broke, may not be able to pay $8,000.00. If that is true your high rate treatment is correct. If the tenant is willing to pay, I think it is utterly ridiculous to try to average $3,100.00 for the period, or something of that sort.

Mr. Schmidt: There was one remark which Prof. Babcock made with which I disagree, and that is because the druggist got a lease for $200.00 a month when the inside stores were renting for $400.00 a month, damaged the property. It does not in my opinion. If I were to condemn that corner, I would condemn the fee, irrespective of the lease.

Mr. Babcock: The answer to that is in the definition of property. I believe your concept is sound, but if you think of property as a bundle of rights, and the privileges of an owner which we have been talking about, then that particular owner is not going to have the privilege of getting the other three or four hundred dollars from that corner store, and therefore it is not in the property.

Mr. Schmidt: The value is there, although the owner has not got it. He has given away a certain amount of that value by giving a lease for $200.00 a month where the present value is $400.00 a month.

Mr. Babcock: All right, following your thought to a logical conclusion,

we can ignore existing leases in general in appraisals. I do not think you want to subscribe to that.

President Kniskern: I think you both are talking about the same thing with this possible difference: I think Mr. Schmidt is correct, but when the city condemns a piece of property it pays the tenant for the value of his leasehold in addition to the owner of the fee for the value of his fee which has been impaired by a contract which he cannot rid himself of. The fee can never get more than $200.00 a month from that store.

Mr. Schmidt: There can only be one value to the property; and the lease at $200.00 a month is a lien on that property, and the court then will enter a distribution of so much money to the owner of the fee less what the value is on that leasehold. The owner himself has created an equity in his lease.

President Kniskern: That is the same thought I was trying to express.

Mr. De Mara: There is a point in this which to my mind is very important for our Appraisal Institute. We are establishing facts on a professional basis. Most of us came from the brokerage field,—as the appraiser was first a broker. And we constantly had in mind that property must be presented in its most favorable light to make a sale, and our judgment has always been colored along optimistic lines. Now, if we are going to be truly professional we may have to change that idea. A good doctor has patients who die. In fact, they all die. There are times when a doctor finds it wise to advise a patient that he can live only so long. That is the best service he can render him. There are other times when he finds it wise, even though he knows it is so, not to advise him of it. That is his privilege.

Now, I think we should get this thought in our minds: As long as men live on this earth they have to have some real estate, so there is no danger of the profession dying, and it is not our job as appraisers, as it is for the broker, to make sales. It is our job as appraisers to determine professionally and as the result of experience and technique what is the value or the use or the utility of lands and buildings from time to time as new methods and new technique develops, expressed if you like in terms of value, or price, or money, or commodities. Our job is not to show everything in a favorable light.

I think that brings up this question of stabilized income. In the past the average appraiser has been ever mindful of getting the value up or getting the value down and his whole mind is working along that line. I am not trying to preach a sermon or anything but I am just suggesting the thought that in the early stages of our Institute, that if we are going to make this anything worth while, we have got to have the courage and tell the truth to our clients. In other words, we have to have the courage to say what we think. If we think ten years from now property is going to be worth 40% of what it is worth now, we have to have the courage to advise people to that effect and not always take the attitude that property is going to be more valuable and that it can't go down.

I said when we were in the Broker's Division that the broker was sometimes like the small town doctor. A man came in to him with a sore foot. The doctor looked him over and seeing that it was only a $5.00 job to cure him, to cure his foot, he amputated his leg in order to get a $35.00 or $50.00 fee. Now, if a man went into a doctor and told him there was something wrong with his foot and the doctor said: "We had better take your arm off," he would not be very popular. That is what real estate men have done and we do not want to do that in

the Appraisal Institute. I believe we should render professional services and let the chips fall where they may.

Percy A. Gaddis, Jersey City, N. J.: The question was how to treat this surplus income for a period of three years. I think it would be very fallacious to capitalize that because we are aware of the fact that we only will get it. It is a capital sum that comes in, and it might be added with an explanation in the value of the property. That is my notion of it.

E. J. Maier, Newark, N. J.: I would like to reply to Mr. Babcock's theory that we scrap this stabilization matter. With relation to that, I do not feel that he is putting the full value on the property for the reason that if you will take a comparable property immediately next door where the owner had a good broker and got the rental that he was entitled to, that in the case of the first property there should be a deduction from the value in the same manner as in considering the income. So that while the value of the properties would be the same, the value to this particular owner who was getting the lower rental would not be as great because he does not own as much of his property.

Mr. Babcock: I think Mr. Maier is using the word "stabilized" in a different way. All I want to scrap is the idea that we can definitely predict, or can fairly plausibly predict variations in future income where those variations are deliberately simplified in arithmetic, and it is that kind of stabilization that should be dropped out of the picture. Where there are predictable variations in income it should be left in.

Ayers J. du Bois, Hollywood, Calif.: One other point on that matter of averaging incomes or stabilizing the income. Supposing we had an income of $10,000.00 for 20 years, or $20,000.00 for 10 years, which would be an average of $15,000.00 a year. Now, it does not take any of you very long to know that to capitalize $15,000.00 a year would be entirely wrong because you are not going to get anything more than $10,000.00 until 20 years passes, and the discount factor on that preferred income would be such that the mathematical average would give an entirely erroneous conclusion. That is why I object to the use of this term "stabilized income", because if what is meant is what I usually have seen done, it is just striking an arithmetical average, instead of what you might call an actuarial average.

Glyndon Priestman, Philadelphia, Pa.: I have been listening to this academic discussion with a great deal of interest, and it has flashed across my mind that much can be done to make appraisal service more popular. In other words, to sell the public of the United States the reason for using and paying for appraisals. It seems to me that appraisals are very largely bought by people investing in mortgages, but when you come to the individual owner of houses of whom there are millions, the average individual never thinks of buying an appraisal or paying for it. He goes to some real estate man and asks that real estate man what the property is worth, and half the time the real estate broker just kids the owner along and tells him the value of the property is what the owner thinks it is. A great deal can be done to make the individual owners buy appraisals. The appraisal does not cost very much, and I know of instances where the owners of property were perfectly satisfied with the appraisal and the appraiser got his small remuneration.

If I might suggest, I think it would possibly be in order if a committee were appointed to lay out ways and means of popularizing appraisal service.

President Kniskern: We are glad to have that suggestion and we will keep it in mind, Mr. Priestman.

John J. Berry, Newark, N. J.: As a layman and not as a member of this Institute, I want to say it has always appealed to me that income is an essential element of value, and therefore the expressed rental value of this property of $8,000.00 a year should be considered as an essential of what that property is worth on the market today. We certainly hope that by the time that lease has expired that the rental value will be far in excess of $3,000.00 and certainly we should not penalize the property because if the lease were to run out today it would be worth only $3,000.00. It is actually renting for $8,000.00 today to a party who is willing and able to pay, and if you or I were owning that piece of property and it were being condemned we would certainly set up that $8,000.00 as an essential element of value and we would ask for a capitalization based on that amount. Now if instead of being a piece of real property this were a stock listed on the stock exchange with actual earning power of $8,000.00 at the present time, that would certainly be an essential element of value in the market value and the price of the stock, and it would reflect its price on the present market.

Morris Goldfarb, Perth Amboy, N. J.: The last statement answers the gentleman's question. If that were a stock and the public knew that stock was going from $8,000.00 to $3,000.00—that stock would be down over night.

President Kniskern: We have a definite example of that thing in the market today. I happen to be thinking of American Can which has ordinarily been paying on a very low yield, but recently they have had a dividend meeting, and prior to that meeting that stock was selling on a 12 or 13 per cent basis in anticipation of the drop in the income. Of course, the stock market is more a reflection of the moment so to speak than is real estate. Real Estate reflects longer trends but the same principles are there.

Harry S. Cutmore, Chicago, Illinois: Mr. President, one of the gentlemen brought up a point about real estate and these rental questions, and it reminded me of a recent tabulation of figures that I saw in Chicago. If all of the apartment property were built up to present possibilities in the City of Chicago we could accommodate 90,000,000 people. If we put in the commercial and business frontage we would then have accommodations for everybody in the United States in the City of Chicago. So I wonder if we are not too optimistic when we go out on this commercial street or apartment street and create values based on zoning possibilities. I think real estate has exhibited more resiliency in this depression than anything else. In Chicago we have had a little difficulty. The real estate men there in their anxiety to get tax relief did a very curious thing, in my opinion. On their letterheads where they state: "Investigate—Buy Real Estate" they talked about a tax strike and they told the world that the commodity that they were selling was the lousiest thing on the face of the earth, and I think that is a very silly thing. They have done their best to convince people that real estate was the worst thing they could invest in. I think we need a little common sense and we will have to face this deflation and tell the folks about it instead of trying to carry water on both shoulders.

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VACANT PROPERTY — DEMAND FOR IMPROVEMENT DEFERRED

The Problem

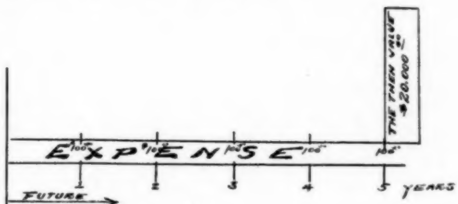
"We are just now making an appraisal of a vacant lot, one-hundred feet square, located on our Main Street. We have decided that the highest and best use that this lot could be put to will be for a one-story building. We do not believe that the time is ripe for improving the property now, however, but should be deferred for five years. How shall we handle this deferred improvement? Carrying charges on the vacant property, of course, continues during this deferred period."

Paper* by J. Alvin Register, Jacksonville, Florida

IN arriving at the value of the vacant lot when it is not immediately ready for use but could be improved in five years to its highest and best use; first, determine the residual value of the land as if and when improved to its highest and best use, discounting the then residual land value at the proper rate of interest, which would reflect the certainty or uncertainty of the site coming into use, and deducting from this the present worth of the carrying charges during the time the land cannot be utilized.

This lot should be appraised in accordance with the Standards of Practice which defines Value as "The Market value of a property at a designated date is that competitively established price which represents the present worth at that date of all the rights to future benefits from ownership."

Since the improvements must be deferred five years, and assuming the then residual value would be $20,000.00, then the future rights or benefits must be discounted to the present. The rate of discount must reflect the probability that the lot will come into use in five years. Assuming that the rate of discount for this risk being 8%, we find the present value of $20,000.00 due in five years to be $13,611.64. From this must be deducted the carrying charges on this lot for the next five years, assuming that the expense would be $100.00 per year for five years, then it must be discounted at the market rate of money, if the certainty of the taxes or other assessments are not being increased. The present value of $100.00 per year for five years discounted at 7% compound interest is $410.00. From the $13,611.64 must be deducted the present value of the carrying charges of $410.00, which would give the present value of the LOT as $13,201.64.



$20,000.00 due in five years discounted at 8% compound interest has a present value of......................	$13,611.64
Less present value of carrying charges. $100.00 per year discounted at 7% compound interest has a present value of....	410.00
PRESENT VALUE	$13,201.64

*This paper was presented before the Institute at one of its convention sessions in Cincinnati, June 29-July 1, 1932.

A MODERN PROPERTY OPERATING AT A DEFICIT

The Problem

What are the controlling data, if any, as to the present value of this property?

"The facts are as follows: A thoroughly modern fireproof elevator apartment building, suited to its location, was completed twelve months ago with an actual cash investment in excess of $1,100,000. Under the present distressed conditions this property could undoubtedly be reproduced for around $850,000. The rental schedule which is not materially different from the 1929 rents is $165,000. It is today approximately 55% rented to desirable tenants, that is, has a gross income of $90,000. It appears that the building could be rented to normal occupancy (10% vacant) on a schedule totaling $140,000. The property would in the past have been considered a 9% property.

Cost when Built (1929-1930)	$1,100,000.
Present Day Reproduction Cost	*850,000*
Renting Schedule	*165,000*
Vacant	*75,000*
Operating Expenses	*58,000*
Net Operating Income	*32,000*
First Mortgage Interest	*39,000*
First Mortgage Amortization	*13,000*
Net Annual Cash Proceeds (Deficit)	*20,000*
Reduced Schedule	*140,000*
Estimated	*14,000*
Estimated	*58,000*
Estimated	*68,000*
Estimated	*39,000*
Estimated	*13,000*
Estimated	*16,000*

Paper* by Carlton Schultz, Cleveland, Ohio

In determining what is the controlling data we must answer the following problems:

I.

Should we use the cost when built—$1,100,000.00, or present day reproduction cost—$850,000.00?

Answer

What a property may have cost is like water over the dam. If the owner lost money, that is his misfortune. We are today only interested in what the property is worth now.

In the determination of present fair market value, the reproduction cost today is one part of the controlling data. As the building is not new, there must be some depreciation and obsolescence. We, therefore, depreciate the reproduction cost of the building alone. $850,000.00 appears to be the reproduction cost of land and building taken together. In determining the fair market value of the building today, we would deduct from today's reproduction cost, depreciation at the rate of about 2% (this amount may be more or less depending upon type of construction and other special conditions) per year for the number of years that the building has stood. This will give the physical value of the building today. Depreciation and obsolescence is not figured against the land as the physical value of the land is determined by what a willing purchaser will pay to a willing seller.

II.

Should the original schedule of $165,000.00 per year be used, or a schedule of $140,000.00 which will keep the building at a 90% occupancy?

Answer

In appraising a property, the stabilized gross annual income is the annual

*This paper was presented before the Institute at one of its convention sessions in Cincinnati, June 29-July 1, 1932.

income to be used. We must remember that no building has a straight line income during its entire life. The income is in the form of a curve. This curve should go up rapidly when the building is new and establishing its tenancy. During the middle life of the building, the curve remains fairly flat or goes down very gradually, depending on competition and other factors, and during its later life it goes down very rapidly until such a time as the income is not enough to support even the land value. Just before this time comes, the building should be torn down and a new one built. As it is very difficult to estimate the income of the building at every annual point in this income curve, it is a common custom to say that during the life of the financing, it will produce an average or stabilized annual income of so many dollars. Out of this average annual income is taken operating expense, fixed charges, obsolescence, and depreciation, and the fund set up by deducting annual depreciation and obsolescence should charge off the entire building investment just prior to the end of its income life. For example, at a rate of 2% for depreciation, annually re-invested at 4% interest, the building value will be amortized in 27½ years, and at 3% depreciation and 4% interest it will amortize the value in 21 years.

Chart I represents more clearly the difference between actual income and expense, and established stabilized income and expense.

Chart II "Trend of Domestic Rents" clearly illustrates the fluctuation in income which has occurred in the last few years.

The best that an appraiser can do is to use careful judgment in determining stabilized gross annual income. During the past ten years, we have all seen the rents of old buildings, which should have been practically charged off, increased to fabulous proportions, and in the last two years we have seen the rents in brand new buildings, which should be on the increase, dropping off to a point where the building was forced into receivership.

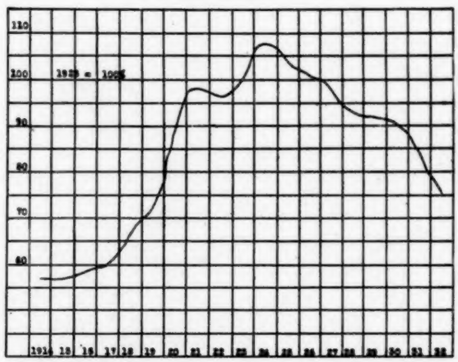
Chart I*

The following is a graphic representation of the difference between the curves of actual income and operating expense, and the straight lines of estimated stabilized income and operating expense.

A—Actual income; B—Actual operating expense; C—Stabilized income level as used for appraisal purposes; D—Stabilized expense level as used for appraisal purposes; E—Where building should be demolished.

Chart II**

Trend of Domestic Rents



The stabilized annual income is a matter of experience and judgment as

*Actual curves of income and expense differ greatly from the straight line of stabilized levels, and a great deal of care must be exercised in adjusting these levels over a long period of time as they are dependent upon changes in economic conditions which are subject to fluctuation.

**The above chart, depicting the trend of rents, includes apartments, singles, and two family residences. This chart was compiled from figures of our rental and management department and other statistical data. It is included in this report to simplify understanding of the fluctuation of income during the last few years.

there is no way of guaranteeing what it will be.

Provided that the reduced schedule of $140,000.00, less the vacancy of $14,000.00 or $126,000.00, is the stabilized gross annual income, then $126,000.00 is the amount to be used in determining the value of the property.

III.

Should the vacancy charge of $75,000.00, based on the original estimated income be used, or should the vacancy charge of $14,000, which represents a ten per cent vacancy under the reduced schedule, be the controlling figure?

Answer

This question answers itself for if we are to use the $140,000 figure as the gross annual income, then the 10% annual vacancy charge of $14,000 will naturally follow.

IV.

Should the operating expense of $58,000, or the estimated operating expense of $58,000 be used?

Answer

As both these figures are the same, there is no choice, and as one year's operating expense has already been incurred, this figure is a known one. There is a fallacy, however, in attempting to believe that the future or stabilized operating expense can possibly be the same as the actual experienced operating expense, for it is a matter of record in the management of all buildings that the expense curve is one which constantly tends to bend upward with greater rapidity as the age of the building increases. Thus the operating expense during the first year is probably less than the stabilized gross operating expense.

V.

Should the net operating income of $32,000, based on the original rent schedule be used, or should a net operating income of $68,000, based upon the lower annual income and actual annual expenses, be used?

Answer

As we have determined above that we should use $140,000 as the gross annual income, $14,000 as the vacancy, and $58,000 as the operating expense, it is then purely a matter of arithmetic to determine that $68,000 is the figure to be used as the net operating income.

VI.

Should the first mortgage interest of $39,000 be used?

Answer

If this is a fixed charge it should be used. Based on the setup given, it cannot be a fixed charge, for the reason that if $13,000 amortization is paid each year, the interest charge will decrease each year. For the purpose of this answer, we will, however, presume that it was intended that the sum of $39,000 and $13,000, or $52,000, be used as the annual payment. The figure $52,000 as a combined annual payment on the mortgage should be used, provided further, that the mortgage does not run longer than the economic life of the building. Assuming that the figure is $52,000, the interest is 6%, and the amortization is 2%, these figures would represent a loan of $650,000, which, would be paid off in twenty-four years.

VII.

Should the net annual deficit of $20,000, set up in the original estimate, or the estimated $16,000 income, be the controlling figure?

Answer

As we have used all of the figures from which the $16,000 annual income would result, the $16,000 annual net income is the controlling figure to be capitalized in determining the value of the equity.

Conclusion

The controlling data used in appraising an income property is as follows:

1. Land value is fair market value today.
2. Building value—Reproduction cost less depreciation and obsolescence.
3. Gross Income—Gross stabilized income.
4. Operating expense—Gross stabilized operating expense.
5. Net operating income—Gross stabilized income less Gross Stabilized Operating expense.
6. First mortgage interest—Actual interest paid.
7. First mortgage amortization—Actual amortization paid.
8. Net Annual Cash Proceeds—Gross Stabilized income less the sum of the gross stabilized operating expense and fixed charges.

Discussion

President Philip W. Kniskern, New York City, N. Y.: Thank you, Mr. Schultz. I want to compliment you on the preparation of that paper, and I want to say that it comes very closely to my own ideas of what we can do here. Mr. Schultz has gone at the principles involved, and I think that is what we want to reach for.

E. L. Ostendorf, Cleveland, Ohio: Personally, it seems to me that the probable figures which have been given are not possible. The expenses are exactly the same under 55% income and 90% income. Another thing: If in one year the drop in rental income would be 15%,—and from my figures that is about what it would be,—and this was in 1930, the drop in the last year should be an added factor in figuring what the value of this property would be.

I take it from the amount of interest that is paid on this property that there is a $650,000 mortgage on it, and realizing its location I would say offhand that the mortgage company owned it. Maybe I am wrong on that, but that is my thought.

Another feature which must be taken into consideration is: is this neighborhood changing by reason of the lowering of rent or is it because of the change in the value of the dollar? In a great many sections in other cities when rents are lowered and a different character of tenant occupies the apartment, that means a lowering of neighborhood standards. When we begin to figure for the future that is data which is essential.

Mr. Land: One other matter might be called to your attention in giving your estimate of value of the property: What is the assessed value of the property or is the assessment entirely too high?

President Kniskern: Well, I would say in that case the assessment is probably close to the $1,100,000 figure.

Mr. Land: Then when you compute your income are you going to take into consideration the over-assessment or are you going to reduced the assessment to the figure at what you think the revision would lower the assessment on that property?

In other words we have many instances in Philadelphia where the properties today are assessed at a greater value than perhaps at the original appraisals, and in many instances we are required in our own judgment to lower those assessments in accordance with the schedule of rents that we have today, and that would also affect the income.

Where we feel the assessment is entirely too high we put an assessed value on the property of what we think the revision of taxes will reduce it to, and then in figuring out our operating expense we figure the tax on that estimated assessment.

Mr. Schultz: That is the second question on the same point. In preparing the paper I took the problem literally. The query was: What are the controlling data, and not how would you use the data herein given.

John J. Berry, Newark, N. J.: In arriving at the value of the property why should the mortgage be considered at all? After all you are valuing a property as an entity for a market value. What that mortgage may be should not be taken into consideration, in my judgment.

I can cite facts in my town where there are mortgages of $1,100,000 on property which could not sell for $750,000, and I have in mind such a building which is only two years old.

In my opinion the mortgage has no relevancy to the value. It is what the thing is worth as an entity. If it is over mortgaged it is just too bad for the mortgage company. I would figure this building as to what it is worth from a rental income basis less standard expenses, and that would be its value.

President Kniskern: One of the reasons that question was included was the fact that the presence of the mortgage makes the property run a deficit, and the Program Committee wanted to see if we could develop the thought as to whether the fact that the property is running at a deficit on its obligations should be recognized, or not.

Ayers J. du Bois, Hollywood, Calif.: Mr. Chairman, on the last point the gentleman raised, it certainly is apparent that the valuation was stated as though the property was over-encumbered. However, the fact would be that what the owner would have to sell would be the unencumbered property, so if you were valuing the property that the owner was possessed of you could not disregard that encumbrance because it inevitably has its effect upon the benefits which any purchaser could expect to receive through acquiring the title.

Mr. Schultz: One might go to a lawyer and say: "Here is a set of facts. What can I do about this?" The lawyer will say: "There is a statute against that, and if you do that you will go to jail." The party then might come back with a second question: "Well, how long will I be in jail?" "Perhaps three days." "Well, I guess I will go ahead and take a chance."

Now, when a man comes to me to have something appraised I think he wants to know exactly what the situation is. As I said before, he may not be in jail for over three days, and it may not seem so bad. In other words, in analyzing that statement, if it were brought to me, I would analyze the income and operating expenses. Then I would make another analysis showing what I felt could be done with the income, and what could be done towards decreasing the operating expenses, perhaps by changing the operation. But I always feel that an appraiser should make a statement of the facts and not a statement of hopes. I think that hopes have been put in many appraisals about which we now are in trouble.

Mr. du Bois: Mr. President, the trouble with Mr. Schultz is he is making an analysis and not an appraisal.

Mr. Schultz: Well, every appraisal is mainly an analysis, because you can't adjust your income against your physical value unless you have the facts. What means something is what that stabilized income is going to be over a period of years. There are a good many apartment houses which have been built and sold on this basis: I build an apartment house and I get all of my friends and relatives to go in and they pay no rent. At that time the suites might rent for $200, but three months later with leases expiring, you might have to go into the open market

and get $75 a month for those suites which are listed at $200. That has been worked time and time again, and that is why I maintain that you have to make an analysis before you start an appraisal.

Mr. Berry: But your mortgage has absolutely nothing to do with the value of this building. You have the income and you have the expenses, and the capitalization on that is the value of this building. If you have too large a mortgage it is the misfortune of the mortgagee. I could cite you many cases, as can all of us, where you can't get 60 cents on the dollar on the mortgage. If you want to appraise equity that is a different thing, but you are appraising value. Taxes have nothing to do with it at all, and interest has nothing to do with it. You are appraising the value. It is the same with a building as with a suit of clothes. It is what it can be reproduced for, and not what is hoped it might be sold for.

Percy A. Gaddis, Jersey City, N. J.: I would be inclined to agree fully in principle with Mr. Berry. The question is the value of a piece of property. The last argument has shown the fallacy of trying to appraise a building on the cost of construction. It does not enter into it. What is the value? The primary control is the economic return. Your appraisa. should tell what the building is worth from an economic standpoint reasonably applied considering conditions as they now exist, or if you believe they are going to be better, set it up accordingly, no matter how many times it may be mortgaged. That has nothing to do with it. Then you might set up the fact that the rents might be raised or changed during operation by certain changes you might suggest, and also through savings in overhead charges such as the reduction of taxes. That, of course, is adding to the income, and taking it that way is the only sound basis.

Cyril R. De Mara, Hamilton, Ontario: As the taxes increase the capital value declines, and that is very important now because taxes in our country and yours are increasing. The increase in taxes decreases the capital value. I think that is perfectly sound economics, and I think the amount of taxes payable now and which will have to be paid has a direct effect on the capital value.

Mr. Berry: May I correct myself for just a minute. I mean that the assessed value put on by the tax assessors is not a criterion of the value.

Morris Goldfarb, Perth Amboy, N. J.: It seems to me that a mortgage on a piece of property such as this adds something to the value of the property, and that something is a definite amount. It is a reasonable fee for procuring that loan, no more and no less.

Walter S. Schmidt, Cincinnati, Ohio: When we go out to appraise a piece of property in Cincinnati, whether it be an industrial building or anything else, we are appraising the fee simple title to that piece of property. It does not make any difference whether there is or is not a mortgage or any other lien on it. What is the value of the fee simple to that property is all we are concerned in.

Now, then, in addition to that appraisal the owner may require us to analyze the operating expenses and his carrying charges, and that would go in a separate certificate. But your value is your fee simple value irrespective of what it costs to reproduce, and the answer to the whole problem, as I see it, consists in the three words: "Supply and demand."

J. Alvin Register, Jacksonville, Fla.: This problem wants to know what are the controlling data, if any, as to the present value of the property. I assume that that means the market val-

ue, and that means for what it will sell in the market by capitalizing the stabilized income.

Mr. du Bois: I do not like this talk about stabilized income. I recall that the statement was made that this was a stabilized income, and they have taken the present level of the income and perpetuated it into the future.

The gentleman raised the question about the assessed values, and he said that the varying of the taxes up or down would vary the value of the property up or down, and this goes back again to this phrase about the stabilized income. You are assuming that taxes are going up, and you are assuming that the future revenue possibilities of the properties are going to change, and if you make those assumptions how in the world are you going to know what the stabilized income is?

I am leaning more to the idea of trying to make an estimate of what the future income might be. If you estimate that your operating expenses will decrease or increase, make that estimate in the future.

I think that to a large extent our appraisal procedure is still looking backward. We are still influenced by the past when we know, as a matter of fact, that what any purchaser is going to get lies in the future.

Now, for example, take this set-up that is given in this question: On the one hand the building is 55% rented, and on the other it is 90% rented. How many of you think that the operating expense will stay at that amount if the building is largely rented? You know it will not, and you can see the inconsistency there.

E. J. Maier, Newark, N. J.: In following up this question of stabilizing rental, I do not see how we can estimate the value of property if we are unable to estimate the stabilized rentals and expenses. We certainly ought to be able to estimate the stabilized rentals and expenses of the future before we begin to capitalize. To attempt to find the final value of a property and not be able to find a stabilized rental, seems to me very difficult. The appraiser certainly should have sufficient data to assume in his judgment the stabilized rental.

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INADEQUATE IMPROVEMENT

The Problem

"Our Appraisal Committee has the job of appraising all of the properties—some 126 in number—which will be involved in the proposed extension of University Avenue. Most of the properties are improved with dwellings of more or less antiquity, but which produce income. In many cases the net income is considerably more than the capitalized value of the land. These cases do not give us much concern. There are, however, a number of cases where the net income is less than the capitalized value of the land. For instance, we have in one case fixed the value of the land at $10,000 and there is an old house upon it which brings $40.00 a month rent. The question is, should we or should we not assign any value to the house. To do so would seem to violate all the recognized rules of appraising and yet we all feel that the property would sell more readily and at a slightly higher price by reason of the improvement. In other words, we recognize the fact that there are some potential buyers who would not be in a position to utilize the property at once and who might be glad to have it producing some income until such time as they might be ready to build. Some of these buildings are merely tax-payers while some will yield a small return on the investment. In your opinion should the building be disregarded, or should we take into account the income which it will produce for a specified length of time? In the latter case, how long a time should be assumed?"

Paper* by Norman W. Kenny, Boston, Massachusetts

THE Appraisal of any property should result in a value which a willing buyer would give and a willing seller would take.

*This paper was presented before the Institute at one of its convention sessions in Cincinnati, June 29-July 1, 1932.

When the value of the property to be appraised is established at a figure which when capitalized exceeds the fair net income being derived from the land with the existing building, then the appraised value has been determined because some new development will enable a purchaser to derive an increased income from his investment plus a sufficient income on the cost of the new development.

The willing buyers for a property of this type where the basis of value contemplates some new development can fairly be divided into two cases:

1. One who desires to purchase for the purpose of an immediate development. A buyer in this class could not be expected to recognize any additional value because of capacity of existing building to earn some income.

2. One who desires to purchase for the purpose of later development. A buyer in this class would be a better prospect to make such a purchase if there were a building located on the land capable of earning some income which would aid in carrying the investment. This buyer would necessarily have the belief that the increment in the value of the property, during the carrying period, would offset the difference between the fair return on his capital investment and the net income from the property, during the carrying period.

An owner, agent, or broker, might be disposed to contend, in negotiating a sale of such property, if the purchaser did not expect to begin the construction of the new project in the very near future, that some consideration in excess of the price for immediate development should be paid based on the expectancy of income during the length of time the buyer intends to maintain the property in its present state. Such a contention could hardly

be maintained because the net income from the property as it stands would be less than the income that could be derived from the capital representing the appraised value. Therefore each day the property is carried in its present state represents a daily loss of income and unless the purchaser for later development is willing to speculate that the property will increase in value during the carrying period sufficient to offset at least the loss of income during such time, he will not purchase.

The earlier the development is completed the less the capital cost, by reason of the shorter period during which carrying charges must necessarily accrue. Therefore to add value to the property because of the capacity of the existing building to earn some income would impose on the ultimate success of the enterprise a double burden—to wit, increased original cost, and increased carrying charges—which would result in a larger ultimate investment on which the earnings must be greater than estimated, to obtain a fair rate of net return.

Therefore, when a property is appraised at a figure the return on which, when fairly capitalized, is greater than the net income being derived from the building already on the land, the appraisal assumes a present development of the property and no additional value should be added to the value of the property because of the capacity of the existing building to earn some income.

Discussion

Richard King, Minneapolis, Minn.: If I understand the question correctly, it is a question as to whether or not any additional value should be added to the value of a property because of the capacity of existing old buildings on it to earn some income. The problem refers to a house which rents for possibly $40 a month. It goes on the assumption that the land value under this house is around $10,000, and the conclusion is, if I understand it correctly, that there shall be no additional value allowed to the property on account of the old house which has a rental capacity of around $40 a month.

Whether we are right, or not, up in our part of the country (Minneapolis) we disagree with that proposition, for this reason: We believe that some small consideration should be given as additional value to the property by virtue of the existing buildings. If those buildings are so obsolete and in such a bad condition that they won't rent, they have no value in our opinion, but we usually get at it from the angle that if they are 80% obsolete, then they have no value. If they are less than 80% and will still rent, we think they add some value to the land, first because a purchaser even for immediate use requires from six months to a year to prepare plans for the new structure before he demolishes the old one. Such rents belong to him in the meantime, and they certainly help to pay his taxes and pay some small interest on his carrying charge which he will not get from the vacant lot.

Second, in the case of a purchase being made not for immediate use the current returns help to lessen the carrying charges, and if we agree that a purchaser is entitled to all future benefits to be derived from a property, certainly the seller should not be expected to throw in these future benefits in the form of current income without some compensation.

The measure of added value on account of current income for this class of property we determine by adding to the land about three years' rent. There are some cases where we will

go as high as four years' rent. There are some other cases where we might have to say that six months' rent might be the proper figure, but we deduct the taxes on the improvement because if you keep the improvement on the land you have got to pay taxes on it. If you take it off you are entitled to deduct the taxes. And if you want to get down to small matters you might even deduct some incidental expenses, as insurance and property up-keep, but we do not find in the average case that it is necessary to get down to where it is a matter of $35 or $50, or something like that. It is usually lumped, and it seems to meet with approval in the territory where we are.

Ayers J. du Bois, Hollywood, Calif.: I would like to say that I agree with the viewpoint that you have expressed, Mr. King. There is just one other thing that might be said and that is whether the improvements might have a salvage value so that the individual buying them might get some amount of money out of that. However, if you are wrecking the properties, and the wrecking cost exceeds the salvage value, the purchaser will have to pay to get the improvements out of the way.

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DEMONSTRATION APPRAISAL

As a means of stimulating discussion of principles and of methods and procedure in the appraising of real property, THE JOURNAL will publish a series of appraisal reports, of which the following is the first, dealing with various classes of property. Each one is prepared by a Member to demonstrate the methods and procedure he considers proper for the type of property or problem involved. They are not offered as "standard," nor is it to be understood that they are "approved" by the Institute.

The officers of the Institute earnestly desire that all members study the sample appraisals and questions published from time to time and send in short, concise, constructive discussions of the principles involved and other suggestions as to methods or procedure.

Through the active cooperation of all members in this manner we shall be able to make this Journal a real forum of discussions and ideas and thereby it will be of tremendous value to the entire membership.

Address Mark Levy, Chairman of the Publications Committee, American Institute of Real Estate Appraisers, 59 E. Van Buren Street, Chicago, Illinois.

Two Story and Basement Store and Office Structure

By BRACTON GOLDSTONE, M. A. I.

Real Estate Appraiser, New York City

Contents of the Appraisal Report

* *

Certificate

The undersigned respectfully begs to certify that he has personally examined the within described property; and that in his opinion the fair value thereof, is *Four Hundred and Twenty-Nine Thousand, Six Hundred Forty-Five Dollars* **($429,645).**

Respectfully submitted,

Bracton Goldstone

Real Estate Appraiser.

Member, American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

New York City
August 1, 1932.

* *

Purpose of Appraisal

New York, Aug. 1st, 1932

From: Bracton Goldstone,
Real Estate Appraiser.

To: Richard Colfax, Pres.,
Southeast Properties Co., Inc.
100 Wall Street,
New York, N. Y.

Subject: Appraisal of property located at N. W. C. of Main and Guilford Sts., Greensboro, N.C.

Dear Sir:

Enclosed herewith please find detailed appraisal of above mentioned property.

The purpose of this appraisal is (a) to determine a fair valuation to be set up on your record "value of real estate holdings" as of Aug. 1, 1932, and, (b) for the further purpose of determining "true value," so that you may be in a position to offer same for sale at a figure that will be fair and equitable to vendor and vendee.

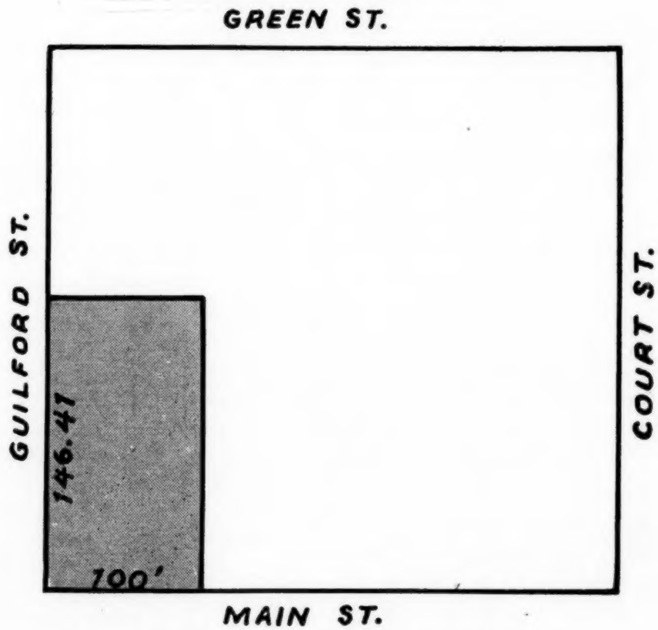
As some of your directors have never been in Greensboro, N. C., nor seen this property, I have gone into some detail as to location and set-up.

Respectfully submitted,

Bracton Goldstone

Real Estate Appraiser.

GREENSBORO, N. C.



Property Owned By Southeast Properties Co.

TITLE 1—Location, Transportation, Population, and Industrial Survey

A. As to the City of Greensboro.

B. As to the County wherein property is located.

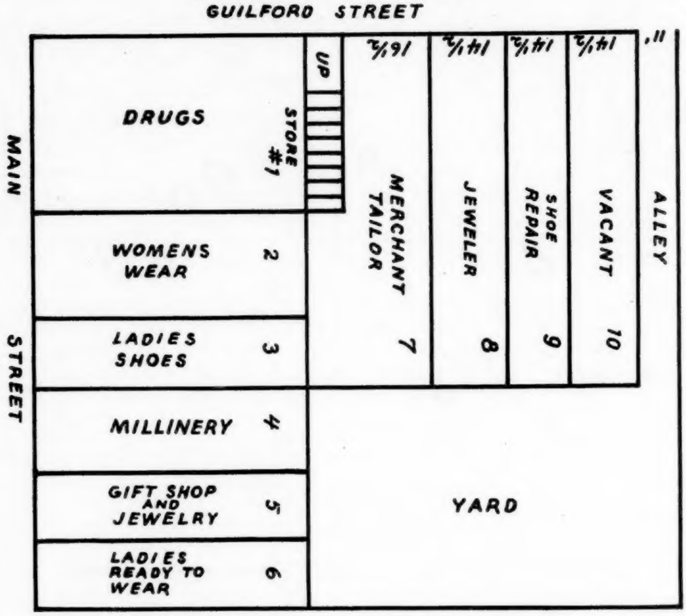
C. Industries, trade and commerce.

D. "Situs".

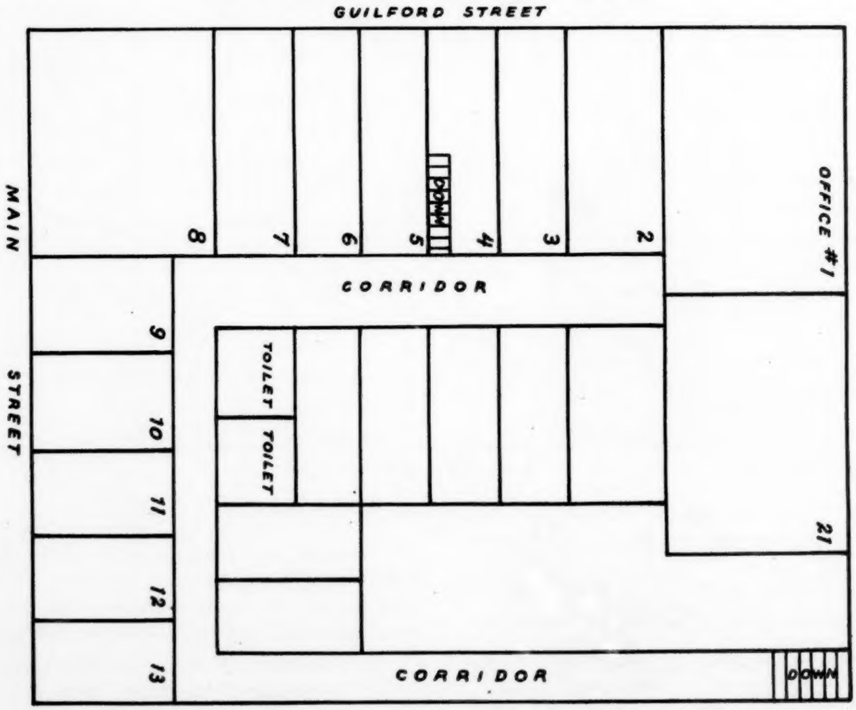
Caption "A"— The City of Greensboro

Greensboro, N. C., is in the heart of the "Piedmont" section, which com-

FIRST FLOOR PLAN



SECOND FLOOR PLAN—OFFICES



prises the two Carolinas and a part of Virginia. It is equidistant from New York City, and Atlanta, Ga., being twelve hours by rail and five by air.

The distance from Greensboro, N.C., to other important nearby cities is as follows:

To Winston-Salem	28 miles
Roanoke, Va.	134 "
Richmond, Va.	188 "
Asheville, N. C.	191 "
Norfolk, Va.	258 "
Washington, D. C.	284 "

Two railroads serve the city; the Southern Railroad and a local road known as The Atlantic and Yadkin Railroad. The main north and south double track line of the Southern Railroad intersects the main east and west trans-state line of the Southern Railroad at Greensboro.

Forty-eight passenger trains arrive and depart daily in six different directions. The Southern Railroad has recently completed a new and modern passenger and freight terminal at a cost of over one million dollars.

Two northbound and two southbound air mail planes leave the Greensboro airport daily, besides two passenger planes in each direction.

There is also a substantial bus terminal in the heart of the business section, adjoining the King Cotton Hotel. Upon inquiry the Superintendent at the bus terminal informed me that about 65 busses leave the terminal daily for every section of the nearby states, as well as several through busses carrying passengers from points north to Florida.

The population of Greensboro, N. C., according to census bureau figures, are as follows:

1920 — 19,861
1930 — 53,569

The percentage of growth in ten years being 170%.

1930 population by sects, race, and nationality:

White population — males, 18,817; females, 20,726.

Colored population — males, 6,470; females, 7,556.

Native born (both sexes), 53,097;
Foreign born (both sexes) 472.

Caption "B"—The County of Guilford

Greensboro, N. C., is the county seat of Guilford County. Seven paved highways lead into Greensboro from all points in Guilford County, and beyond, as follows:

From the West: Highway No. 60 from the airport, Winston-Salem, and Statesville.

From the Southwest: Highway No. 10 from High Point, Salisbury, Charlotte, and Asheville.

From the Northwest: Highway No. 704 from Madison, Martinsville, and Roanoke, Va.

From the Northeast: Highway No. 70 from Reidsville, Danville, Va., Lynchburg, Va., Martinsville, Va. and Roanoke, Va.

From the East: Highway No. 10 from Durham, Raleigh, Henderson, Oxford, and Richmond.

Population of Guilford County (U. S. Census Bureau):

1920 — 79,272
1930 — 132,989

Increase in 10 years — 67%.

It will thus be seen that (a) the population of the City of Greensboro has increased during the above period about 2½ times as fast as the County in which it is located; and, (b) the present population of the City of Greensboro is approximately 43% of the population of the entire County in which it is located, the County as a whole being rural in character.

Caption "C"—Industries, Trade, and Commerce

Textiles predominate: There are several spinning and weaving plants, silk and hosiery mills, terra-cotta plants, and chemical works.

The largest single industry is that of the **Cone Interests,** the White-Oak Cotton Mills, being one of the largest denim mills in the United States.

The Blue Bell Overall Co. has its plant here, and Vicks Vapor Rub Salve is manufactured in this City.

It is also the home office of the Jefferson Standard Life Insurance Company, which erected the sixteen story office building located at the corner of Main and Court Streets, said building being opposite Liggett's Drug Store. It is also the home office of the Pilot Life Insurance Co., which has several large buildings in the outskirts of the city, covering several acres.

There are about twenty furniture plants in and around Greensboro, and several tobacco factories.

It is about one hour by bus from Winston-Salem, the home of Camels and Prince Albert, and draws a considerable amount of business from that city. Furthermore, travelers desiring to make direct connections from Winston-Salem to points north and south along the Southern Railroad drive over to Greensboro to catch the fast limited trains.

According to the local Chamber of Commerce the following financial and other statistics may be considered reliable and trustworthy (1930 figures are the latest available):

Post Office receipts	$ 424,748.00
Bank clearings	256,664,000.00

Industry: 92 establishments, employing 6811 people, with an annual payroll of $5,665,000.00 in normal times, and a normal output of $38,782,000.00.

Retail Trade (U. S. Census figures for 1930): 624 stores with an annual sales volume of $26,500,000.00.

Area of the City of Greensboro is 17.4 sq. mi.

Population of 50 miles trading area, according to the U. S. Dept. of Commerce Market Survey, is over 600,000, but in my opinion this figure is excessive. Furthermore, this area is too large to be considered. I should say that from Guilford County and the fringes surrounding Guilford County, Greensboro has a trading population of 200,000, and this latter figure should be considered in estimating retail trade prospects, probable gross sales, rental values, and land values.

Caption "D"— Site Data

The property appraised herein is situated at the northwest corner of Main Street and Guilford Street on the square, bounded by Main, Court, Green, and Guilford Streets.

Main Street is the principal business thoroughfare; and the 100% location is on the west side of the street between the two blocks from Court Street to Guilford and Guilford to Washington Street. These two blocks contain most of the five and ten cent stores, specialty shops, as well as the high grade and popular-priced department stores.

The best retail corner location in the town is now centered at the southwest corner of Main and Court Streets; the ground floor at this location now being occupied by Liggett's Drug store (the U. S. post office is directly across the street from Liggett's at the S. E. corner).

The reason Court Street is a good cross street is because of the fact that shoppers come into this location via auto, bus, or the Court Street car line, from the best residential section to the west. The Court Street cars also cross Main Street on their way to the bus

station and to the railroad station. There is a bus stop at the southwest corner of Court and Main Streets and another bus stop diagonally opposite on the northeast corner.

The habits of these shoppers are as follows: They get off at the Liggett corner and proceed to walk down the westerly side of Main Street as far south as Washington Street. The men shoppers usually take the easterly side.

The easterly side of Main Street is at present a 75% retail location between Court and Washington Streets, the dead line being the office building located at the corner of Main and Washington Streets. On this side of the street will be the cheaper merchandise retailers, such as Stein's $12.75 Men's Clothes Shop, Credit Jewelers, and in general that type of retail store that cannot afford to pay the higher rents demanded on the west side of the street and yet desire to absorb as much of the 100% location as is possible.

The property to be appraised is situated at the northwest corner of Main and Guilford Streets.

Advantages: It is exactly at the center of the 100% retail shopping area.

Disadvantages: The side street (Guilford Street), is a very narrow street, approximately 30 ft. in width. While it is true that pedestrians use Guilford Sreet in rounding the corner of Main and Guilford on their way to shop in Green Street or on their way to the Court House, nevertheless the narrow width of this street is reflected in the low rents obained for side street stores in comparison with the Main Street store rentals.

TITLE 2 — Description of Land and Building

Land

Size of Lot: 100 ft. wide on Main Street by a depth of 146.41 ft. The plot is rectangular in shape.

Store and Office Building, Two Stories and Basement in Height

Approximate Dimensions: Beginning at a point on Main Street 100 ft. northerly from the intersection of Main and Guilford Streets, running

	100 ft. south along Main St.
thence:	135 ft. west along Guilford St.
thence:	55 ft. north
thence:	65 ft. east
thence:	45 ft. north
thence:	70 ft. east to point of beginning.

In other words, an alley 11 ft. has been created on the side Street so that one can get around to the rear of 7 out of the 10 stores and a court yard approximately 45x65 ft. has been left to give light and air and access to these seven stores.

This court also gives light and air to all the offices on the second floor which do not front on either Main Street or Guilford Street, so that there are no dark inside rooms. All offices, therefore, are supplied with adequate air and natural sunlight during business hours.

TITLE 3 — Construction Details

Two story and basement store and office building, built exactly five years ago.

The improvement is of steel frame construction, with brick foundation walls. The basement is divided by hollow tile partitions, with a cement floor over entire space. The boiler room and cold storage have brick walls. Each of the ground floor stores has a storage space in the basement.

First Floor

The first floor is divided into store space, there being six stores fronting on Main Street, and four stores fronting on Guilford Street. These stores are divided by terra cotta partitions with plaster finish concrete floor, cov-

ered by a wood flooring. Toilet and lavatory facilities are supplied each store. The Main Street stores have direct access to the basement storage space by means of a steel stairway and trap door, located in the rear of each of said stores.

Second Floor

The 21 office rooms on the second floor are divided by terra cotta partitions with plaster finish. Public corridor floors are of terrazzo; private office space has Dura-Flex floor; the men's and women's toilets on the second floor have tiled floors and wainscot; marble saddles and base, in corridor. Each office has a private sink.

Facade and Miscellaneous Details

Both the Main Street and the Guilford Street fronts are of limestone, terra cotta, metal ornaments, and marble base at street level. Stores and entrance to building have a tiled vestibule with marble saddles for all doors.

Rear and side elevations are constructed of brick.

The stairways to the second floor are of steel frame, marble tread and risers. The main entrance to the building is on Guilford Street, and there is a supplementary means of egress and ingress by a smaller entrance leading out to the alley fronting on Guilford Street.

The building has a side-walk elevator to the basement.

Wood trim around windows and doors.

The structure is heated by steam.

Date of erection — 1927. Cubic contents 390,000.

Original cost of construction, including architect's fees, and all necessary and legitimate overhead charges, $162,000.00.

The building is a suitable improvement to the land and reflects the highest utility of the site, built to its full economic height.

Reproduction Costs

To reproduce this building, new, today, would cost $130,000.00 with an economic life of 30 years. The present condition of the building being practically new and taking into consideration all economic factors, I estimate the residual economic life at 25 years.

These figures have been re-checked by competent architects and contractors, as the appraiser herein recognizes the importance of having his own construction cost figures re-checked to the end that the present reproduction cost may be accurately gauged.

TITLE 4 — Method of Appraisal Approach

Article 3 of the Standards of Practice adopted by the Appraisal Division of the National Association of Real Estate Boards, defines value as follows:

> "The market value of the property at a designated date is that competitively established price which at that time represents the present worth of all the rights to future benefits arising from ownership."

There has grown up a common practice among many of the real estate appraisers who desire to conform strictly to the above definition, of estimating year by year, the probable future gross rents, the probable future gross operating expenses, and also the probable future net earning capacity of the building, for its residual economic life, categorically set up, year by year, which may be 20, 25, or 30 years hence. In addition, under this plan, they also set up a figure which is their estimate of the reversionery interest in the land by making a "forecast" of the amount which could "probably" be ob-

tained for the remainder of the property at the end of its useful life, brought down to present date on the annuity tables.

To me, in the present state of the realty market, with the future graph of commodity prices, labor costs, and building material costs uncertain, and our entire economic structure undergoing a change, the above method of appraisal approach would throw the figures too much into the realm of guess work.

Furthermore, we have witnessed, in our own experience, in several cities where owners have purchased properties, or made long term leases, that in spite of every known rule, method and effort to make forecasts as to possible trend of business, traffic, rents, and/or values,—in spite of every known precaution, we have seen 100% locations become 50% locations within a period of ten years or less, leaving "Blighted Areas".

I have therefore adopted a more conservative policy, and have used the straight line capitalization method in determining land value, and the usual annuity method in determining the building valuation as will be more clearly shown in the calculation figures which follow.

TITLE 5—Rentals
"Stores"

The leases on all of the stores, made five years ago, expire within the next few weeks. The date of economic recovery being uncertain, you will renew on short periods—three to five years; three year leases wherever possible. With regard to the offices on the second floor, the rule will be one or two years.

Since this appraisal is of Aug. 1st, 1932, and you desire a present fair valuation, I have set up in Column 1, the present rents, and in Column 2 the "Present Rental Value" which means the stabilized rents you should receive for the next few years, beginning Aug. 1st, 1932.

In estimating present rental values, I have carefully considered, (A) the class of tenants in your building, and whether or not these stores are the proper stores for the location. (B) the gross volume of sales per annum expressed in dollars. (C) the minimum and maximum rent these stores can afford to pay and permit the profitable continuance of such stores as may be suited to the location and the building. (D) Rental conditions and rental values in the neighborhood.

Store No. 1: Southern Drug Co. You are charging Southern $12,000 per annum. This rent is too high. Probably the result of an old lease. All business seems to come from Main Street. Very little from Guilford St. You could not rent this store for over $10,000 per annum, hence this figure will be used as the rental value.

Stores 2-3-4: Each store now pays $6,600 per annum. They will not renew at that figure. Store No. 2 being next to the corner can and will pay $6,000 per year. Stores 3 and 4 will renew for $5,500. You will renew for three years. I consider these rents fair, and leases are being drawn at these figures.

Stores 5 and 6: These two stores received a reduction in rent from $6,600 to $6,000. You will renew for three years at $5,500 each; which will equalize the rent of these stores with stores 2, 3 and 4.

Store 7: Month to month tenant at $720. This store is worth $900 for the next few years, and you should not receive any less. There are two applicants for same and you will probably close at that figure. Hence $900 is the rental value.

Store 8: Complains that he gets very little business from Main Street. I don't believe this jewelry shop belongs in this location. Some other business would do better and would draw from Main Street. Also complains rent is too high in comparison with store 9. Adjusted rental value is $900.

Stores 9 and 10: The present rent is the rental value. Store No. 10 is the only store which will be vacant after Aug. 1st, but there are several prospects. Rental value Store 9—$600; Store 10—$550.

Corroborating Data

Dolly Madison Shoe Co.; 27 foot store having a depth of 100 feet on Main Street right next to the Liggett Corner just renewed for $12,000 per annum for five years. This is on a basis of a little less than $445 per foot. Your Main Street Stores have been given a rental value of $366 to $400 for depths of 70 feet.

Store formerly occupied by Hart's Women's Shop, on Main Street, between Washington and Guilford Sts. has just been re-rented for a term of three years at $7,500 per annum and three years at $8,000 per annum. Since this store is 20 x 80 it means a rental of $360 to $400 per foot front, which approximates your rental estimates.

If the National Merchandising Co. does not re-open their 40 foot store on the same block as your property (Main St. between Court and Guilford) it will be offered for not less than $17,500 per annum according to local brokers.

Office Rentals — Second Floor

Pursuing the same policy with regard to the offices, I have set down the fair rental value of each office — rental values that will obtain for the next year or two.

Offices 1, 3, 4, 6, 14, 15, 16, 18, 20, 21 are vacant due to the general business depression, and to the fact that you have been asking too much rent. I have consulted several renting agents and they are of the opinion that they can rent at least half the offices now vacant on short term leases at the figures I have used in my rental value setup.

Vacancy Allowances and Collection Losses

I have allowed 5% for vacancies and collection losses on the ground floor. With reference to the offices on the second floor I have made a 25% charge for vacancies and collection losses. While at first glance it would seem extraordinary to raise the usual vacancy allowance from 10% to 25%, nevertheless your vacancy lists, unpaid office rents, collection costs, and legal fees in connection with court cases, as shown by your records for the past three years, justifies this percentage. Furthermore, I made a survey of vacant office space in the vicinity, as well as office space rentals, and I am convinced that out of a potential rental of $9,120 per annum if fully rented, a deduction of $2,280 under the circumstances is not too much.

TITLE 6 — Earnings, Operating Expenses, and Computation of Value

Earnings

(GROUND FLOOR)

Space Occupied	Present Rent	Present Rental Value	Vacancy & Collection Losses	Effective Gross Rentals
Store No.				
1	$12,000	$10,000		
2	6,600	6,000		
3	6,600	5,500		
4	6,600	5,500		
5	6,000	5,500		
6	6,000	5,500		
7	720	900		
8	1,200	900		
9	600	600		
10	550	550		
Gr. Fl.	$46,870	$40,950	$2,050	$38,900

(SECOND FLOOR)

Office No.				
1	$ 600	$ 480		
2	360	360		
3	360	360		
4	600	480		
5	480	480		
6	480	480		
7	480	480		
8	900	900		
9	480	480		
10	480	480		
11	480	480		
12	480	480		
13	480	480		
14	600	420		
15	360	360		
16	360	300		
17	300	300		
18	360	300		
19	360	300		
20	360	300		
21	420	420		
2nd Fl.	$ 9,780	$ 9,120	$2,280	$ 6,840
Entire Blg.	$56,650	$50,070	$4,330	$45,740

Operating Expenses (Stabilized)

Insurances (Fire, Plate Glass, Boiler Accident, Liability and Compensation)	$ 600.00
Taxes (Assessed Value $412,000)	12,200.00
Legal Expenses	200.00
Fuel (85 Tons)	680.00
Electric Light	120.00
Janitor	800.00
Water	150.00
Electric Power	170.00
Supplies	240.00
Miscellaneous Operating Expenses	250.00
Repairs and Decorations	400.00
Estimated Normal Annual Operating Expenses	$15,810.00

NOTE: The Total Operating Expenses on the items indicated above averaged $16,500 for the years 1930 and 1931. But a careful check of these figures would indicate that with certain economies, and changes in the operating and maintenance policy, the average yearly operating expense for the next few years can be levelled off to slightly less than $16,000 per annum without lessening the efficient operation of the building.

DEPRECIATION: No allowance has been made in the expense set-up for depreciation. I have handled this matter by taking an annuity factor from the annuity tables for calculating the present worth of the net income of the improvements, which, during its economic life will return the capital sum invested in the building, and will, at the same time, pay 8% interest on the constantly diminishing unpaid balance of the investment in the structure during its estimated economic life.

Computation of Value

1. Estimated effective gross rents $45,740.00
2. Estimated normal, stabilized, operating expense 15,810.00
3. Estimated normal annual net earnings before depreciation and interest.... $29,930.00

REPRODUCTION COST OF PRESENT BUILDING AS PRESENTLY CONSTRUCTED — $130,000.

Normal economic life of present structure — 30 years.

RESIDUAL ECONOMIC LIFE OF PRESENT STRUCTURE—25 years.

4. LEVEL ANNUAL SUM AT 8% for 30 years required to return the total Replacement Cost, exclusive of land value and pay a return of 8% on the money invested in the structure equals $130,000 times .08 plus 130,000 times .008827 on the table for computing sinking fund or amortization requirements......$11,547.51

5. RESIDUAL RETURN ON THE VALUE OF THE LAND $18,382.49

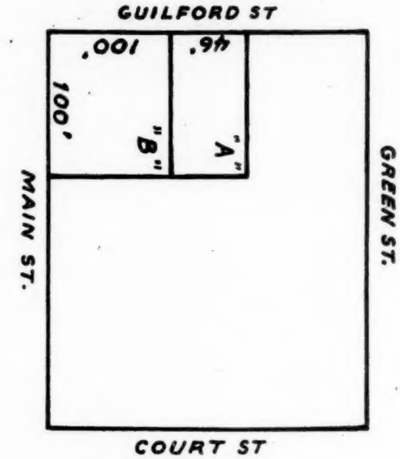
6. LAND VALUE COMPUTATION
Return on Value of Land capitalized at 6%........$306,374.83

7. BUILDING VALUE COMPUTATION
Present value of $11,547.51 for 25 years at 8% on the present value of $1.00 per annum table, for computing today's worth equals $11,547.51 times 10.675......$123,269.67

8. TOTAL VALUE OF PROPERTY add items 6 plus 7 ....$429,644.50

9. APPRAISED VALUE casting off cents col.....$429,645.00

TITLE 7 — Valuation by Summation Process



Land Calculation

Section "A" 46 feet at $800 per foot ....$ 36,800
Section "B" 100 feet at $2000 per foot 200,000
Corner Increment (Zangerle Scale) 100 feet takes 72% of the side street value
100 feet at $800 x .72............ 57,600

Value before plottage............$294,400
Plottage Value add 10%........ 29,440

Total Value of Land..............$323,840

Substantiating Data

Plot 51x150, two hundred feet south of above property sold Feb. 18, 1932, for $113,985 or $2235 a foot for the

150 foot depth. The unit used in the above calculation was $2000 for a standard depth of 100 feet. This sale was well advertised and was bought for investment. The vendor was a trustee and the sale was subject to the approval of the court. The concensus of opinion among the local Real Estate Brokers, is that the price paid was fair and equitable.

Building Calculation (Summation Process)

Reproduction Cost of New Building $130,000

Normal economic life—30 years.

Salvage value at end of useful life is 20%, or........................$26,000

$130,000 minus $26,000 equals $104,000

$104,000 divided by 30 equals $3,466

This sum of $3,466 must be charged off annually. As the building is five years old, the accrued depreciation now amounts to $3,466 times 5 or $17,330.

Reproduction Cost $130,000
Accrued Depreciation $17,330
Present Value of structure as depreciated $130,000 minus $17,330 or $112,670

Recapitulation (Summation Process)

Value of Land $323,840
Value of Building................. 112,670

Total Value $436,510
Value by earning capacity....$429,645

The difference between the two methods is negligible.

I have left the value by the earning capacity method intact.

Valuation certified $429,645.

Respectfully submitted,

BRACTON GOLDSTONE,
Real Estate Appraiser.

Member, American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

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COMMENTS ON DEMONSTRATION APPRAISALS

It is a pleasure to read and comment on the appraisal made by Mr. Goldstone which, although complete and thorough in the handling of the subject, is at the same time set up by the appraiser with a refreshing absence of complicated formulae and tables.

His statement of the purpose of the appraisal is worthy of notice. He makes it clear that he is attempting to determine the true value from a sound economic standpoint so that an intelligent buyer would be willing to purchase the property based upon its demonstrated income at this time and its probable future earnings.

The appraiser's decision not to attempt to predict too far into the future of this or any other property seems, to the writer, to be good common sense.

The information given in regard to passenger trains, passenger airplanes, and mail planes is interesting and helpful and certainly has an important bearing on the value of retail property.

The further information showing the negligible proportion of foreign born is also important as is the rapid growth of population in Greensboro and the data in regard to industries, trade, commerce, Post Office receipts, and bank clearings.

In a longer report, the appraiser would doubtless have included the bonded indebtedness of the city along with its assessed value as an indication of future taxation.

The very clear discussion showing the valuable location of this property is well handled.

The allowance of 25% for vacancies and collection losses in this case shows the experience of the appraisr, as these contingencies are so often underestimated.

In general, the writer feels that the above appraisal is thorough, complete, intelligent, and presents the added attraction of being easily read, easily understood, and handled in a simple way throughout.

It has been my experience that expert men in any line of work, and only expert men, are able to set forth a more or less complicated problem in a manner so simple that it can be readily understood by any trained business man.

Hollis Bush, M. A. I.,
Miami, Florida.

My personal opinion is that the demonstration appraisal by Mr. Bracton Goldstone represents a considerable and commendable amount of thought and is worked out along proper lines. It is concise and direct and does not contain unnecessarily lengthy discussion.

It should be understood that although this is an appraisal of an actual property, the identity and location of the property has been purposely concealed by Mr. Goldstone out of respect to the wishes of parties directly connected with the property. Otherwise this appraisal repor should and would have contained photographs of the property, a map of the city, and a map of the immediate district in which the property is located — especially since it was prepared for individuals not thoroughly familiar with the city and district in which the property is located.

It is my opinion, not in the manner of criticism of Mr. Goldstone's work, but in the interest of the Institute, that the appraisal might very well have been closed with "Title 6", without proceeding to the valuation by the summation process. The property is very apparently an investment property and in my opinion the valuation process need go no further than the value derived from its earning capacity, providing, of course, existing leases and income estimates are in accord with the existing or prospective market and providing, also, that the improvements represent the highest and best use of the land, which they do in Mr. Goldstone's opinion.

As I have so often expressed myself before, the use of any so-called formula to produce the value of a parcel or parcels of land is purely a "secondary line of defense", to which, in my opinion, the appraiser should not have to resort. Land is worth what it will or can be made to produce and not what may be indicated by a depth or corner influence table.

Purely from a technical aspect, Mr. Goldstone has neglected to give consideration to that period between the date of his appraisal and the creation of the new leases upon various parts of the property at rentals which he estimates to be the "present rental value". This would probably not create a very great effect upon the value as finally reported, however, I believe it worth mentioning at this time. Also, there has been omitted from the statement of stabilized operating expenses one item which I believe should be included in every such statement, that being the management item. Whether the property is under the direct control of the owner or whether compensation is paid to the managing agent, this charge is a proper one, as even the owner, if he manages the property himself, is entitled to compensation for his efforts or the equivalent thereof. Anyone considering the purchase of this or any such property, would have the right to contemplate such an expenditure.

Mark Levy, M. A. I.,
Chicago, Illinois.

Under "Title 4" of Mr. Goldstone's appraisal, he mentions the practice among real estate appraisers of estimating year by year, the probable future gross income and operating expenses, and also the probable future net earning capacity of the building, for its residual economic life, categorically set up, year by year, and states that because of the present state of the realty market, the above method of appraisal approach would throw the figures too much into the realm of guesswork.

It has always been my belief that whether we call it judgment or guesswork, and whether we use a straight line income and a straight line operating expense for future years, or set up the estimate year by year, we must arrive at the same place in order to have our appraisal by income at all accurate.

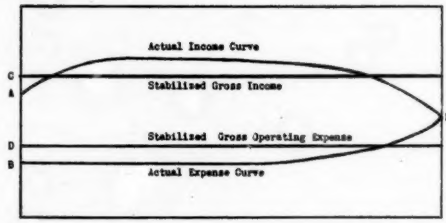
In appraising a property, the stabilized gross annual income is the income to be used. We must remember that no building has a straight line income during its ntire life, but that the straight line income, which we often use in our appraisals, is merely the average of the actual year by year incomes so that in order to set up this straight line, we must carefully estimate the year by year incomes.

The income is actually in the form of a curve. This curve should go up rapidly when the building is new and establishing its tenancy. During the middle life of the building, the curve

remains fairly flat or goes down very gradually, depending on competition and other factors, and during its later life, it goes down very rapidly until such a time as the income is not enough to support even the land value.

A similar thing is true in connection with operating expense. There is a fallacy in attempting to believe that the future or stabilized operating expense can possibly be the same as the actual experienced operating expense, for it is a matter of record in the management of all buildings, that the expense curve is one which constantly tends to bend upward with greater rapidity as the age of the building increases. Thus the operating expense during the first few years is probably less than the stabilized, or straight line gross operating expense, which, as in the case of income, is obtained by averaging the year by year estimates of operating expense.

The following is a rough graphic representation of the difference between the curves of income and operating expense, found in actual experience, and the straight lines of average or stabilized income and operating expense.



A—Actual Income; B—Actual Operating expense; C—Stabilized income level as used for appraisal purposes; D—Stabilized expense level as used for appraisal purposes; E—Where Building should be demolished.

Carlton Schultz, M. A. I.,
Cleveland, Ohio.

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CHURCH PROPERTY

The Problem

"How can one arrive at the value of church property? My case involves condemnation proceedings. Sales value, of course, is limited when applied to churches. Are there any cases (legal) where a rule has been set up as to the value of church property or other property which is not ordinarily valued on the basis of commercial use or on the basis of compensation by money payment? I presume that the rental that a church would have to pay might be considered as a possible guide in valuing the property. Is there any legal rule established by any jurisdiction as to the valuing of church property used by a going concern for church purposes?"

Paper* by Maurice F. Reidy Worcester, Massachusetts

IT must be clear to the appraiser who has a church problem that the factor of obsolescence may not apply to a church to the extent that it does to other kinds of buildings. Age usually produces depreciation in the ordinary building by not alone the time element of wear and tear, but by the changing style and advance in the art of designing, causing obsolescence. This is true in nearly all kinds of buildings that we meet in our daily experience, but it cannot be held to be entirely true with regard to churches.

If you would consider for a minute those prominent churches in the world that might be called the most valuable, especially the cathedrals of Europe, we find that many of them are seven hundred years old, the buildings are of a design of that time and period, and it might be said that as far as time since then is concerned, there has been little improvement in the art of designing churches.

*This paper was presented before the Institute at its convention sessions in Cincinnati, June 29-July 1, 1932.

I remember being in the ancient church of San Lorenzo in Florence, Italy. The guide, after showing us through most of the church, said, "Now I am going to take you into the new part of the building". I learned from him that the new part was five hundred years old, and, incidently, bore many of the works of Michael Angelo.

Instances of this in a modified form can be found in most of our modern cities. In my own city, the oldest church is situated on Court Hill near the County Court House. It is a simple, colonial type with a typical New England spire, high and beautiful. There is tradition involved in the use of this church. It has historical value to its present worshippers. And I am sure, if our municipality offered them in exchange for their simple, old building, a new marble or granite or limestone structure, they would indignantly refuse the offer.

Obsolescence due to age and changing style, therefore, may be a negligent factor in the physical valuation of a church building. Age, also, in some instances, may be eliminated as to a value reducing factor, especially where the church, though old, may be a physically sound building and have a membership and an active pastoral history. Indeed, to the parish worshippers, age may add sentimentally to the present value, although this cannot well be taken into consideration in an actual appraisal report.

Of course, these thoughts apply to a going church, satisfied with its location, and without any thought of abandonment on the part of the parish.

Personally, I would maintain that the market value of the land and the physical reproduction value of the building with some agreeable amount

for depreciation not based on the age, but on the actual physical condition of the building, should determine the result as to value of that kind of property.

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Paper* by Arthur W. Drew, Providence, Rhode Island

THE case of Asbury M. E. Church vs. City of Providence, for a church property taken by condemnation for the widening of a street, was recently tried before the Superior Court and a jury here. In this State an appeal may be taken from this Court to the Supreme Court, whose decision is final.

Experts for the City were allowed to tell what they knew of sales of churches throughout the city. Counsel for the church was sustained by the Judge in the contention of the Church that the Asbury M. E. Church at the time of condemnation was a going concern, without mortgage on its property, with an excellent attendance regularly, whereas every one of the sales of churches quoted by the City's experts were churches either already abandoned or on their last legs, so to speak.

In a case in this State of Hall vs. City of Providence, for an extensive and unusual residence property taken by condemnation for a water supply, the Supreme Court, upon appeal, ruled that experts were unable to quote sales of property similar to the Hall Property within a reasonable distance of it and, therefore, the measure of damage should be reproduction less depreciation. Counsel for the Church used this decision and obtained the ruling of the Judge, presiding at this jury trial, that the value of the Asbury Church property should be considered reproduction less depreciation. Building contractors, as well as realty experts, were brought in to testify as to this value. The City did not take the case up on appeal to the Supreme Court.

To those real estate experts who followed the trial daily, it did seem as if the ruling were the only fair one to make in such a case. Clearly, practically every sale of a church property seemed to be a case of no use for the property by a church. This Asbury Church was an unusual example, for few churches are without mortgages, have money in the bank, and a comfortably filled auditorium weekly.

It was interesting to hear counsel for the City and their experts testify that the general locality of the Asbury Church had for twenty years been depreciating from residential district, of such people as would ordinarily attend this Church, to some business and poor and different class of residents. Counsel for the Church was able to prove that notwithstanding this change in locality the worshippers at the Asbury Church chose to come from their residences, wherever they were, to that particular church and had no wish to give it up. Furthermore, it was proven that the membership had been steadily increasing while the locality was changing from residences to cheap business. Notwithstanding all this testimony and contention, the Judge allowed the ruling of reproduction less depreciation to stand.

*This paper was presented before the Institute at its convention sessions in Cincinnati, June 29-July 1, 1932.

Discussion

Percy A. Gaddis, Jersey City, N. J.: Church property is service property and therefore is to be handled in a different manner than income property. It has no economic value and it is exempt from taxation. I believe the proper treatment would be a consumption of the normal market value of the land for what use has developed in the territory, plus replacement, less depreciation.

Morris Goldfarb, Perth Amboy, N. J.: I do not agree with those statements. How are you going to handle Trinity Church in Wall Street, New York. How are you going to handle that church in Newark which is surrounded by very high valued property; the church in Redbank, New Jersey, a beautiful edifice recently sold for enough money to build themselves a church in the outlying district far superior to the church they had. In other words, there are churches built 20, 30, or 50 years ago in localities where business has since encroached and has increased the land values far beyond any value that the land might have if occupied by a church, or a school, or a Y. M. C. A., or any such use as that. I have particularly in mind sales made in New Brunswick, New Jersey, of church property. Everybody tried to get the Board of Directors to sell that church, and they finally induced the church to sell because it could build elsewhere in a residential neighborhood and they could have money left in their pockets. It certainly seems to me it would be unfair to say the value is the value of the land plus the cost of building.

E. J. Maier, Newark, N. J.: This question is with relation to condemnation. The fact is that there should be no sentimental value atached, and that is the law in New Jersey. We have had cases where churches have been taken by the city recently, as stated in the first paper, and they were given the market value of the land plus the replacement cost of the building, less reasonable depreciation. I will say that the city was very liberal with them.

Walter S. Schmidt, Cincinnati, Ohio: Taking up this subject of condemnation with church property, I think there has been one point overlooked, and that is any appraiser, whether it be in a condemnation case or in a sale as between one congregation and another has got to take into consideration first the title. Now, Trinity Church was mentioned. Why didn't you mention St. Paul's Church, north of that owned by the Trinity Church Corporation. The only reason Trinity Church has not been sold, and they have sold a part of it where Trinity Building is on the north end, or that the other properties owned by the Trinity Corporation have not been sold is because it is covered by a deed of gift in some cases and the occupancy of that property was the old graveyard.

I think in addition to that the appraiser has to take into consideration the normal value of the land and the reproduction costs of the church, and these other elements that I have mentioned. In Cincinnati, we have what is known as the First Presbyterian Church. To keep up that property they have built a two-story structure along the front. They have sold, as the necessity required for financing, a certain part of the old cemetery and have removed what remains of the bodies. Again in my opinion there is the question: Can they give a title?

Glyndon Priestman, Philadelphia, Pa.: We have to take the value of the ground for church purposes plus the value of the church buildings. If, however, the ground alone is worth much more than the ground for church purposes plus the buildings, then you can disregard the value of the buildings entirely and just take the value of the ground.

Mr. Maier: I would like to say to the gentleman here with respect to the matter of title that in a condemnation case recently they did take part of St. Paul's property under eminent domain, and they accepted it and received title.

John J. Berry, Newark, N. J.: Churches as a rule exist because they are tax free. If you taxed all the churches in the City of Cincinnati on the same basis as you tax apartment houses and

other forms of property, you would see how long your church doors would be open. Going tax free they are able to continue and live while all surrounding properties are increasing in value. You can't give the highest economic use to the land and then say the church has an income or has a value. It may be sentimental.

Ayers J. du Bois, Hollywood, Calif.: It seems to me that the problem can be answered by this question — whether it is a church or any other kind of property: To what extent do the improvements enhance the value of the land.

Harry S. Cutmore, Chicago, Illinois: I have in mind that in the City of Chicago some of the finest churches structurally are located in the blighted areas that surround the downtown district. In Europe the churches have a stability of location, and their immediate surroundings will remain more or less stable for several hundred years. Many of the Chicago churches that I speak of are boarded up. They are liabilities because the ground has gone down in value and there is plenty of property accessible. There is no particular salvage in the mass of stone and what not that goes into these edifices, and it seems to me that, with our changing districts and shifting populations in our cities, the question of the future of practically any church is questionable.

I know a very few churches and I have appraised hundreds of them where the parishioners will go any distance to attend them. Perhaps they will in the case of the First Presbyterian or Trinity Church as outstanding examples where style and custom will permit the people to be driven down by their chauffeurs. But generally speaking that is not true, and I think that that should be considered.

Of course, we also should consider this whole question of exemptions. We have expanded tax exemptions in the United States until it is my understanding that one-fifth of all the real estate value in the United States is now exempt. We have extended the tentacles of exemption into our whole scheme of things. In fact, if we keep on with our present theory we will wind up by only taxing the bad things. You will have to be running a bootleg joint or something to be taxable.

In the City of Chicago we have the Moody Bible Institute which, under its charter, may erect any type of commercial property on the land they own in the downtown district, and it is tax free. Naturally they compete with other business and have all the leverage on their side. I really think the point this gentleman raised is important and should be considered. Whether or not anybody will have courage enough to attack it, I do not know.

I might tell you that from an assessment standpoint in the state of Illinois the statute is clear and definite that parish houses are taxable and it has been so held by the Supreme Court, yet under the pressure of the religious interests 75% of the parish houses have been removed from the assessment roll and no one today has intestinal fortitude enough to put them back. I think it is an outrage, but you do not seem to get anywhere with it. There ought to be some effort made on the part of the oppressed real estate owners to at least demand that the law be enforced. If it is a bad law, get it off the books. I believe that situation occurs in practically every city in the country.

Mr. Gaddis: As a matter of fact I think that school, hospital, church, and various other public institutions come under the same class. And I do not think that some of those who have spoken heretofore would want to an-

nounce the same rules for a hospital or for a school as they have mentioned in regard to a church. Going back for the moment to the matter of churches let me say that that is a survival of a condition when the church was the gathering place of its members, but in our civilization it does not hold the niche which it used to possess. It is for that reason that every community desired and did everything they could in the olden days to aid those institutions.

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BLIGHTED AREAS

The Problem

"Our city, through the Park Board, is condemning an entire block of property in the center of town, on which there are a number of old buildings, all but two of which are one story high and about sixty feet deep. One building is three stories high—an old fourth or fifth class hotel, and another building is three stories high—also an old cheap hotel. This property is located in what was a saloon district. The question has come up as to whether or not a summation appraisal is proper under the circumstances. It does not seem to me fair to the property owners in this block that they should not be allowed to have a real estate expert give the value of the land, and contractors the structural value of the buildings, especially in view of the fact that the property has not produced a good income in the last few years owing to the prohibition amendment, although previous to that time it had produced a very high income, comparatively speaking. These property owners have held the property a number of years expecting that some improvement in the neighborhood would help its value or else that the city or United States government would take the property for postoffice purposes or some other public use."

Paper* by Stanley Roe, Chicago, Illinois

I AM going to speak quite frankly in attempting to answer this question, although I do so quite in the abstract, lacking more definite information than that contained in the question. This inquiry, I am informed, was received by the Consultation Bureau of the National Association of Real Estate Boards, with a request for an answer. I do not know whether or not an answer was sent to the writer, nor do I know by whom an answer was written if such was the case. If the person who made this inquiry is present today I want him to know that there is nothing personal in the remarks which I am about to make. To me, this question is purely academic and I shall, as the saying goes, "Hew to the line and let the chips fall where they may."

Before attempting to answer the question it may be well to consider the circumstances which may have surrounded its origin. There is little doubt in my mind that the question was sent in by an appraiser who had been asked to represent the owner of one of these buildings, and who was seeking to obtain for such owner as large an amount

*This paper was presented before the Institute at its convention sessions in Cincinnati, June 29-July 1, 1932.

of compensation as was possible. Under the circumstances as stated in the question, it can readily be understood that a summation appraisal would produce a larger amount as representing the value of any one of the properties than would an appraisal formulated in what would be considered the proper and approved manner.

An answer to the implied question of conduct itself is to be found directly in the "Standards of Appraisal Practice for Realtor Appraisers" as approved by the National Association of Real Estate Boards in 1929. On page 16 in Article 6 of these Standards there appears the following paragraph:

> "It is unethical for an appraiser to issue an appraisal report on a fractional part of a property unless he specifically states that the value reported is invalidated if used in making a summation appraisal of the property as a whole."

In this manner the conduct of the appraiser, if he intends to adhere to the Standards, is definitely established and the question as stated need concern him no further. However, even though that part of the question concerning the services of a contractor or contractors is eliminated there still remains a similar limitation upon the appraiser, also placed by the Standards of Practice, should he alone contemplate estimating the value of the land as such and also the structural value of the building. Also on page 16 of the Standards of Practice in Article 7 appears the following paragraph:

> "It is unethical for an Appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the values of fractional parts of the property."

These two excerpts from the Standards of Practice should in actuality settle the question as to conduct, however, it is only natural that any appraiser should want to know why he should be so limited in his appraisal activity.

Without making too specific a reference to the conditions in the general real estate market as they now exist and as they have existed for the past few years, permit me the observation that a great amount of havoc has been caused by the exploitation of what we term "summation appraisals", particularly those used in support of securities with land and buildings behind them, in which appraisals the land was appraised by one individual and the improvements by another. That this process may produce the value of the property as a whole is of course within the realm of possibility but it overlooks the important factor concerning a structure as such which bears definitely upon the value of the entire property. This factor is the functional capacity of the improvement, which is all that gives it value. It has often been said that a building is simply a "means to an end" which, translated into everyday language carries the thought that it is the improvement which brings out the earning capacity or productivity of the land.

In a situation such as that which exists in the district concerning which the question was put forth there apparently are small or no earnings to be given weighty consideration. Perhaps in such a situation the comparison process would be the most adaptable. In this process the sale prices indicated in transfers of similar sites and similar buildings are utilized and a basis for the actual comparison analysis is selected. The process is one purely of market analysis and would perhaps be most justified in an eminent domain proceeding conducted according to citations from various court decisions throughout the country. From these citations we find a definite legal attitude

toward the condemnation of real property. Courts throughout the country have recognized this situation in the so-called "before and after" theory of valuation. In the problem under consideration the value after is of course definitely established as zero to the owner of the property before the condemnation. The remaining portion of the problem then is the value of the property before the condemnation. As I have previously stated, in a condition typical to the one with which the question concerns itself the comparison process is perhaps the best guide, and I should like to venture the guess that no matter whether a property were improved with a three story building as against one in the same block improved with a one story building there would be little or no difference in the price which might be obtained for that property.

No matter what or whose definition of market value is employed in such an instance let the appraiser always bear in mind the words of the Supreme Court of the United States in its decision rendered under date of May 26, 1894 in the case of C. C. C. & St. L. vs. Victor M. Backus which sets forth in part that "Never was it held that the cost of a thing is the test of its value."

Discussion

Richard King, Minneapolis, Minn.: This is a case in which I testified. The question is not my question — I did not know it was in the program until yesterday.

We have two principal business thoroughfares in Minneapolis which converge at a point in our old district. These two streets go out in a V-shape form. The property involved is down in an old dilapidated district near the Union Depot, and perhaps forty years ago it was considered pretty good property, but in the last 20 years it has been in the discard, and since the prohibition amendment it has had very little earning power. Before that the average it paid probably was twelve to fifteen per cent and twenty per cent ofttimes because there was a hazard in owning it and it paid high returns.

We had on this corner a piece of property about 125 feet frontage on the main thoroughfare and about 150 feet on a side street. About a year before the prohibition amendment was put in force the owner put up a new two-story structure approximately 40 feet wide by about 60 feet deep. The building was very well constructed and was of a good type. Prohibition came along; and he was lucky to get any return out of it as a labor office.

The man who wrote in this question was employed by a family who had owned this property for about fifty or sixty years. It had come down through inheritance to the present owners. He was employed by this family to represent them in the condemnation proceedings before the Commissioners.

About a year prior to this time I was employed by one of the largest newspapers in Minneapolis to find a new site, and after spending some six months covering various points I picked out this particular piece of property because it was so located that it could be bought, in our judgment, at a reasonable price, and it had the advantage of being near the depot where they could hook up tubes for mail, and a large sign of any nature out in front of the property could be viewed from almost the entire Nicollet Avenue for a distance of sixteen blocks. It had a particular value to a newspaper,— so my clients thought, anyhow. I tried to buy it. I optioned this piece and had under option several other pieces. As usual, I struck one woman who owned a piece of

property in there who thought it was worth about four times what the rest of the people were willing to sell theirs for and that gummed the deal up, and we did not get across. In some way or other the attorney who represented the family who owned this corner got that information and called me in to testify in this case. I was on the witness stand for three half days, two of those half days under cross examination by the federal attorney. I testified to a valuation on that property, as I remember, of $72,000 or $75,000. This appraiser who has propounded this question attempted to set up a value on the property by land plus buildings of the present duplication cost less depreciation, and the federal attorneys shot him pretty much full of holes.

The Commissioners brought in a verdict of $16,000. The man who wrote this question in was the representative of the state, and they asked for $110,000. The facts which were brought out in that procedure are very much in accord with the paper that has been read on this matter. After all, it does not make any difference how good your buildings are if they have not the earning power and can't anticipate the earning power, the value is not there.

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SPECIAL PURPOSE PROPERTIES—BANKING

The Problem

"We have in our city, a Federal Reserve Bank property. The four outside walls have no windows. A very considerable amount of remodeling would have to be done to use the building for income purposes; and a very large amount of expense that has been incurred in erecting the building would be wasted if the building were remodeled for ordinary use. I am asked to appraise the property for tax purposes. Can you give me any help?"

Paper* by A. P. Allingham, Buffalo, New York

WE assume the building is vacant. The question resolves itself into one of determining, which for want of a more expressive word I will call, the amount of obsolescence due to its limited use. While occupied as a Bank there was no observed obsolescence and the value of the property was largely determined by the cost of reproduction less depreciation, having in mind the location of site value for banking purposes.

A special purpose building loses a percentage of its value in direct ratio to the cost of remodeling for general purposes when the special use ceases.

A Bank with heavy walls constructed of iron, stone, and cement, is perhaps the most expensive to remodel, and, from which there would be comparatively little salvage. After examination it might be found uneconomic to alter and more productive to destroy the building and rebuild on the site. We assume, however, that it has been found practical to change the building and an estimate is needed to find out the cost of removing the special vaults, erect floors between the present high ceiling and the ground floor, install a new front probably for window display, passenger and freight elevators, etc. When this cost is found one must then determine the net income which can be derived and from that deduce the value of the property. This Bank property, no doubt, has a

*This paper was presented before the Institute at its convention sessions in Cincinnati, June 29-July 1, 1932.

large facade with ornamental pillars ten or more feet out from the wall which would be otherwise rentable space and unless removed so that the wall would come to the sidewalk not adaptable for merchandising.

A Mortgage lending institution, an Abstract and Title company, an Insurance company, might require very little comparative alteration after the expensive Bank vaults have been removed. The general appearance of stability for these uses might be considered to offset a high rental. A retail store might be a misplaced use on the site after alterations are made because of migration of such users from the district.

A large department store, following the trend of activity moved five blocks from its long established location, leaving an unrentable property surrounded by banks and office buildings. The cost of remodeling for new occupancy equalled the depreciated value of the structure and when completed the rental obtained was two-thirds its former figure. A revaluation on the basis of income showed a marked recession in value which was not observable during the department store occupancy.

We have in mind a recently built banking house. The first floor or banking room has around each inside wall a row of Italian marble columns thirty feet high, mosaic floor, and beautifully decorated ceiling. The expensive interior has no particular economic use but serves to satisfy the intangible sense of beauty which the owners desired to express. We would say this is an over-improvement and would penalize it accordingly, it being understood that our appraisal presupposes the result to be an economic figure based upon general utility.

I recently appraised for tax purposes a furniture mart ten stories high. The only outside light was in the street floor display windows, and the office on the mezzanine floor; above that windows had been installed in the outer wall but a gypsum wall constructed two feet inside, shutting off light but permitting air through screens. The merchandise was displayed by artificial light which is the modern method. For this purpose no windows are necessary and the only feature of obsolescence to consider, should the building be needed for general purposes, was the cost of removal of the inner wall and plastering the outside wall.

Fred. M. Babcock in his Toronto address 1930 Annals (p. 141) said "the difference between an appraisal of typical and special use property lies in differences in the data rather than differences in method."

Preston M. Nolan said the same thing in Annals of 1929 (p. 85). Lester W. Porter's contribution in Annals of 1928 (p. 706) says, "It is sometimes proper to estimate the cost of converting a special type building into a standard type usable for a large number of purposes and to deduct such cost from the original cost of the building. Comparison in that case should be made with the cost of erecting such a standard type and care exercised that the figure arrived at by the first method does not exceed that arrived at by the second."

The Courts have determined that "use makes value and varies with the profitableness of that use, present and prospective, actual, and anticipated." It would therefore seem that the greater number of profitable uses would establish a livelier market and conversely a limited use a lower valuation.

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CHARTER of the AMERICAN INSTITUTE of REAL ESTATE APPRAISERS of the NATIONAL ASSOCIATION of REAL ESTATE BOARDS

ARTICLE I

SECTION 1. For the purpose of advancing the science of appraising, of improving appraisal procedure and of providing a means for the control and elimination of improper and incorrect appraisal practices of the present as well as the future, the Board of Directors of the National Association of Real Estate Boards, under authority of Article XII, Section 1, of the Constitution of the Association, does hereby establish the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

SECTION 2. For the accomplishment of these purposes and objects, the American Institute of Real Estate Appraisers may:

a. Establish and maintain its own membership qualifications, examinations, and other requirements,

b. Establish standards of procedure and practice,

c. Exercise control and discipline over its membership including expulsion,

d. Establish membership dues, initiation and such other fees as it may deem proper and expedient,

e. And, in general, administer its business and activities as may seem best to its membership;

provided, however, that such acts shall be subject to the approval of the Board of Directors of the National Association of Real Estate Boards, as shall, likewise, any other acts or pronouncements of the Institute which would tend to commit the National Association of Real Estate Boards as a whole to a policy or course of action.

SECTION 3. The governing body of the Institute may conduct or provide for examinations, the issuance of certificates and otherwise select, identify and grade its membership as to knowledge, ability and standing.

SECTION 4. The President of the Institute shall, during his term of office, be ex officio, a member of the Board of Directors of the National Association of Real Estate Boards; and the Board of Directors of the National Association of Real Estate Boards shall designate one of its members other than the President of the Institute to serve each year on the Governing Council of the Institute.

SECTION 5. The name shall be American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

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BY-LAWS of the AMERICAN INSTITUTE of REAL ESTATE APPRAISERS of the NATIONAL ASSOCIATION of REAL ESTATE BOARDS

ARTICLE I

Objects

SECTION 1. The objects of the Institute shall be:

a. The advancement of the science of appraising and evaluating interests in real property;

b. The fostering of knowledge, of integrity and the fair and accurate judgment of value of real property;

c. The professional advancement of its members;

d. The promotion of technical and scientific discussion among its members;

e. The promotion and propagation of sound, proper and ethical practices;

f. To promote adherence to the Standards of Practice and Code of Ethics of the American Institute of Real Estate Appraisers;

g. The certification and identification of experienced and competent appraisers.

ARTICLE II

Membership

SECTION 1. Membership in the Institute shall be divided into two grades — Members and Affiliates.

SECTION 2. The grade of Member is open to any individual who holds, and remains in good standing in, any form of membership in a Member Board of the National Association of Real Estate Boards and who:

a. Is not less than 25 years of age;

b. Is actively engaged in a responsible capacity and in such manner that his regular duties involve the appraisal of real property. He shall have been actively so engaged with a good record for at least five years, of which not more than two years may have been in allied work, or be represented by university or college work agreeable to the Institute;

c. Satisfactorily establishes his knowledge of and his ability to appraise the mass of individual residential properties, multi-family dwellings up to twenty-five family apartments, and the smaller retail and income properties;

d. Demonstrates his ability to appraise all properties which are standard to and ordinarily encountered in a city or town of fifty thousand in population;

e. Satisfactorily passes a written or oral examination (either or both) given by the Institute.

SECTION 3. The grade of Affiliate is open to any individual who holds and remains in good standing in any form of membership in a Member Board of the National Association of Real Estate Boards and who, having a clear record, complies with the membership requirements to the satisfaction of the Governing Council.

SECTION 4. No individual may be admitted to the grade of Member in the Institute unless his application be specifically approved by the Real Estate Board of which he is a member.

SECTION 5. Affiliate members may attend the annual meetings of the Institute and have the privileges of the floor but they may not vote or hold office. They receive without extra cost a copy of each of the publications of the Institute.

SECTION 6. All individuals, when making application for membership, shall agree to uphold the constitution, by-laws, principles and ideals of the Institute and shall further sign an irrevocable waiver of claim against the Institute, or any of its governors, officers, committee members or other officials as individuals or as a group for any official act in connection with the business of the Institute, and particularly as to its or their acts in electing or failing to elect, advancing or disciplining him as a member.

SECTION 7. The examination as to qualification for membership will be prepared by the Governing Council of the Institute, or such committees as it may appoint. The examination of candidates may be delegated to the officers of the local Appraisal Chapter of the Institute, where such exists, or to the Appraisal or such other committee as the Board of Directors of the local real estate board may designate, where no local chapter of the Institute exists. The papers and records covering this examination will be forwarded to the Governing Council of the Institute for grading, final judgment and action on admission and the decision of the Governing Council.

SECTION 8. All members shall be admitted to the Institute only by a vote of not less than 80 per cent of the entire Governing Council and three negative ballots shall exclude. Candidates for membership shall be examined under such rules of procedure as the Governing Council may determine.

SECTION 9. Whenever a candidate seeks admission to the Institute, the Secretary shall send a written notice of such application to all members of the grade for which the candidate makes application, including therein a digest of the candidate's application and stating a time limit for reply which in no case shall be more than three weeks from date of mailing. It shall be the duty and obligation of each member to reply to such notices and to give the committee notice thereby of any favorable or unfavorable facts known to the member regarding the candidate. All replies from members shall be referred to the proper examining committee and considered by them, but kept in strict confidence by the members of such committee. A negative request of 25 per cent of the membership in good standing in the grade to which the candidate seeks admission, when such requests are made for cause, shall exclude a candidate.

SECTION 10. The Institute shall exercise effective disciplinary power over its entire membership, including expulsion for cause. Such disciplinary power will be sufficiently self-restrained so that there will be no curbing of the individuality of the member, but will provide control so that the member who

fails to conform to the decisions and principles of the majority, may not continue to benefit from a professional status granted him by the organization.

Disciplinary powers will be designed not to curtail ability and freedom of action, but to eliminate incompetency or lack of character or integrity. These powers shall be such that the Institute may effectively force a member to maintain himself to the standards which he has reached and proven to others at the time of his admission to membership.

SECTION 11. The affirmative votes of at least 80 per cent of the membership of the Governing Council present at the time of balloting shall be required to discipline a member and a minimum vote of two-thirds of the entire Council shall be necessary for expulsion.

ARTICLE III

Certificates

SECTION 1. Each member shall receive a certificate issued by the Governing Council of the Institute as evidence of the fact that he has satisfactorily met the admission requirements, including examination.

SECTION 2. The Certificate of Membership shall be the permanent property of the Institute and shall be returned to the Secretary of the Institute promptly when the membership of the individual to whom it is issued is for any reason terminated.

ARTICLE IV

Nomenclature

SECTION 1. All members of the Institute may identify themselves by the initials "M.A. I." which shall be the abbreviation for the words "Member Appraisal Institute." Members may use these initials following their names for any professional purpose, correspondence, etc., as follows: John Doe, M.A.I.

Members may also use the expression "Member American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" on letterheads, business cards and in other professional forms, provided that such use shall always be dignified, in a manner satisfactory to the Governing Council and in accordance with such rulings as the Council may issue from time to time.

Section 2. Affiliates shall not be permitted professional identification with the Institute.

ARTICLE V

Dues

SECTION 1. Subsequent to their election, members shall not be entitled to a certificate or any other benefits until the initiation fee, if any, and dues for at least twelve months have been received by the Institute. Failure to make such payment within ninety days of notice of election shall void the election to membership.

All dues become payable on January 1st of each year and in case of memberships accepted subsequent to that date dues for the second year will be adjusted on a quarterly proration.

SECTION 2. The Annual membership dues of Members shall be $20.00.

SECTION 3. The annual membership dues of Affiliates shall be $10.00.

SECTION 4. Each application for admission in the grade of Member shall be accompanied by a $5.00 examination fee, non-returnable.

ARTICLE VI

Governing Council

SECTION 1. There shall be a Governing Council consisting of a minimum of sixteen and a maximum of twenty-eight members, one of whom shall be appointed by the Board of Directors of the National Association of Real Estate Boards, and the balance of whom shall be elected by the Institute from among its membership.

SECTION 2. One-third of the elective members of the Governing Council shall be elected at each annual meeting to serve for a term of three years (except that at the first annual meeting of the Institute five shall be elected to serve for a term of one year, five to serve for a term of two years, and five to serve for a term of three years).

ARTICLE VII

Nominating Committee

SECTION 1. The President, by and with the consent of the Governing Council, shall appoint a Nominating Committee, consisting of five Members of the Institute.

SECTION 2. It shall be the duty of this Nominating Committee to nominate at least one person for each vacancy in the Governing Council of the Institute, which nominations shall be reported by mail to all Members of the Institute at least three weeks prior to its annual meeting. Additional nominations may be made by a petition signed by at least five Members in good standing provided such nominations shall be in the hands of the Secretary of the Institute at least five days prior to the annual meeting.

The report of the Nominating Committee and any additional nominations shall be read at the first meeting of the annual meeting for the information of the Members.

ARTICLE VIII

Election of the Governing Council

SECTION 1. The annual election of one-third of the elective members of the Governing Council shall take place at the second session of the annual meeting of the Institute.

SECTION 2. The election shall be by ballot and every Member in good standing present shall be entitled to one vote.

SECTION 3. The Chairman shall appoint three tellers who shall make a tabulation of the ballots and report to the meeting the result of the votes cast. The Members receiving the highest number of votes for the Governing Council shall be declared elected and the tellers will so certify in writing to the Secretary of the Institute, giving the number of ballots cast for each nominee. Any tie vote shall be decided by a majority ballot of the members of the Governing Council, that is, the newly elected members and those continuing in office.

SECTION 4. The Governing Council by majority vote shall elect members to fill any vacancies occurring between annual meetings and each person so elected shall hold office until the vacancy is regularly filled at the next annual meeting.

ARTICLE IX

Officers

SECTION 1. The Governing Council shall elect from among its own number a President and Vice-President. These officers shall also be respectively President and Vice-President of the American Institute of Real Estate Appraisers. The duties of these officers shall be such as usually pertain to their respective offices.

SECTION 2. The chief executive officer of the Institute, shall, by virtue of his office, become a member of the Board of Directors of the National Association of Real Estate Boards.

SECTION 3. The Secretary and the Treasurer of the National Association of Real Estate Boards shall be the Secretary and Treasurer respectively of the American Institute of Real Estate Appraisers. All funds of the Institute, including any special funds contributed to it by its members or others, shall be deposited in the treasury of the National Association of Real Estate Boards by the Treasurer and shall be segregated for the use of the Institute. The Treasurer shall make due accounting to the Governing Council of the Institute at least once each year.

ARTICLE X

Fiscal and Elective Years

SECTION 1. The fiscal year and elective year of The American Institute of Real Estate Appraisers shall conform to those of the National Association of Real Estate Boards.

ARTICLE XI

Standing Committees

SECTION 1. The standing committees shall be as follows: Executive Committee, Admission Committee, Local Chapters Committee, Membership Committee, Legislative Committee, Publicity Committee, Appraisal Procedure Committee, Statistical Committee, Disciplinary Committee, Program Committee.

SECTION 2. Appointment and Duties.

a. Appointment. Each of the above committees shall consist of two or more Members of the Institute, except as otherwise herein provided. They shall be annually appointed by the President by and with the consent of the Governing Council.

b. Duties. The duties of these committees shall be defined by the instructions they shall from time to time receive from the President of the Governing Council.

ARTICLE XII

Special Committees

SECTION 1. Special committees may be appointed by the President, subject to the approval of the Governing Council, to perform such services as may be assigned to them.

ARTICLE XIII

Local Chapters

SECTION 1. For the purpose of affording its members better opportunities for close cooperation, discussion of various phases of real estate appraising and local control, the Governing Council of the American Institute of Real Estate Appraisers may under such rules and regulations as it may adopt establish such local chapters as may be deemed advisable or necessary. These local chapters shall be known as "Chapters of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" and shall each be given an identifying number in the order of their establishment.

SECTION 2. Upon the application of not less than fifteen Members in good standing, the Governing Council may grant authority

for the establishment of local chapters with limits defined geographically by the Governing Council, such authority to continue at the pleasure of the Governing Council and to be revocable by the Council under such rules as to quorum and vote as are elsewhere set forth for the expulsion of a Member. Such local chapters shall always have not less than fifteen resident Members in order to maintain the continuity of their existence. The Governing Council may, however, at its discretion grant a special dispensation for permitting the formation of a chapter with a membership below the minimum number established in the By-Laws.

SECTION 3. These chapters shall have the right to elect a Chairman and other officers and committees and to assess dues necessary for their proper functioning. The actions of such local chapters shall at all times be subject to the approval of the Governing Council of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards and shall at all times remain subject to the Constitution and By-Laws of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards. Local chapters may not speak for the Institute without prior specific authorization from the Governing Council.

ARTICLE XIV

Meetings and Quorums

SECTION 1. The annual meeting of the American Institute of Real Estate Appraisers shall be held at the same time and place as the annual meeting of the National Association of Real Estate Boards. Other meetings may be called by the Governing Council of the Institute from time to time.

SECTION 2. All meetings of the Institute shall be open to all members of the National Association of Real Estate Boards, provided, however, that only Members and Affiliates duly enrolled in the Institute shall be entitled to the privileges of the floor, to participate in the discussions, and only Members to vote or to hold office.

SECTION 3. Those Members present after due notice of not less than two weeks prior thereto shall constitute a quorum for any annual meeting.

SECTION 4. A quorum for any special meeting shall consist of 60 per cent of the Members in good standing when present either in person or by proxy. All Members are to be notified by mail sent out at least two weeks prior to the date of any special meeting of any decisions to be made at the meeting. Any decisions made at a special meeting without such prior notice shall not be final until confirmed at the next annual meeting or at a subsequent special meeting following due notice of the action to be considered.

ARTICLE XV

Limitation of Liability

SECTION 1. The National Association of Real Estate Boards shall not assume any liability for expenditures or commitments of the American Institute of Real Estate Appraisers unless such expenditures or commitments shall first have been approved by the Board of Directors of the National Association of Real Estate Boards.

ARTICLE XVI

Territorial Appraisal Limitations

SECTION 1. Appraisals made by a Member of this Institute outside of his own Board city or metropolitan area for the purpose of selling a bond issue to the general public shall be made in conjunction with a fellow Member of the Board city or metropolitan area where the property to be appraised is situate; provided, however, that there is such an Institute Member in such city or metropolitan area.

ARTICLE XVII

Amendments

SECTION 1. These By-Laws may be amended by the Governing Council of the American Institute of Real Estate Appraisers by a two-thirds vote of the Members present, provided thirty days' notice in advance shall have been given to all Members of the intention to amend, together with a written copy of the proposed amendments, and provided further that such amendments be approved by the Board of Directors of the National Association of Real Estate Boards before they become effective.

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ROSTER OF MEMBERS

Admitted July 1, 1932

CALIFORNIA

Glendale

PETER HANSON........................520 Security Building

Hollywood

AYERS J. du BOIS............7079 Hollywood Boulevard

Long Beach

J. MORTIMER CLARK, Clark & Maspero................
....409 Security Building
J. C. HOFFMAN..............................204 Kent Building
A. G. MASPERO, Clark & Maspero.........................
....409 Security Building
T. F. MERRICK..............................Heartwell Building

Los Angeles

ARTHUR L. LAYDEN, R. C. Mason & Co...............
....609 S. Grand Avenue
NATHAN H. LIBOTT........6331 Hollywood Boulevard
STANLEY L. McMICHAEL......6785 Whitley Terrace
CHARLES B. SHATTUCK........2510 S. Vermont Ave.

North Hollywood

RALPH BRASHEAR..........10602 Magnolia Boulevard

Oakland

JAMES G. STAFFORD....................5820 Presley Way

Sacramento

W. S. GUILFORD..Sutter Club

CONNECTICUT

Hartford

JOSEPH P. KENNEDY........................720 Main Street

DISTRICT OF COLUMBIA

Washington

HAROLD E. DOYLE..............................738 15th Street
JOSEPH A. HERBERT, Jr.....1013 15th Street, N. W.
A. C. HOUGHTON......................1516 H Street, N. W.

FLORIDA

Jacksonville

V. M. COVINGTON....................1316 Graham Building
LOUIS R. FENDIG........2nd Floor, Buckman Building
MYRON L. HOWARD........516 Professional Building
J. ALVIN REGISTER......................114 Graham Building
BAINBRIDGE RICHARDSON......117 W. Forsyth St.

Miami

HOLLIS BUSH....................................Security Building
KENNETH S. KEYES, The Keyes Co., Inc.............
....First Trust Building
ADRIAN McCUNE..................1017 Security Building
D. EARL WILSON....................1017 Security Building

Orlando

G. JACKSON, Jr.................................62 E. Pine Street
C. W. REX..................................144 N. Orange Avenue

ILLINOIS

Chicago

JOHN P. HOOKER..................140 S. Dearborn Street
MARK LEVY..................................7 S. Dearborn Street
J. SOULE WARTERFIELD........8 S. Dearborn Street

INDIANA

Indianapolis

GEORGE A. KUHN..................706 Guaranty Building

IOWA

Sioux City

WILLARD L. FROST.............Security Bank Building

KANSAS

Hutchinson

J. C. McNAGHTEN...

MARYLAND

Baltimore

W. E. FERGUSON....................100 E. Pleasant Street
HARRY E. GILBERT................2 E. Lexington Street
CHARLES H. STEFFEY...........336 N. Charles Street

Bethesda

H. WENDELL FITZGERALD.................P. O. Box 53

MASSACHUSETTS

Boston

W. H. BALLARD...................................45 Milk Street
NORMAN W. KENNY, C. W. Whittier & Bro.......
....82 Devonshire Street

Fall River

EVERETT N. SLADE, John P. Slade & Son..........
....57 N. Main Street

Worcester

MAURICE F. REIDY............................2 Foster Street

MICHIGAN

Lansing

FRANK B. McKIBBIN.............120 W. Ottawa Street

MINNESOTA

Minneapolis

NORMAN L. NEWHALL..........519 Marquette Avenue
EDWIN L. SOMERVILLE......1478 N. W. Bank Bldg.

MISSOURI

Clayton

NORMAN B. COMFORT..................7 Gables Building

St. Louis

W. C. BERNARD..............................317 N. 11th Street
WILLIAM W. BUTTS.................803 Chestnut Street
CHARLES J. DALY...................801 Chestnut Street
JOSEPH W. HANNAUER............811 Chestnut Street

NEBRASKA

Omaha

C. D. GLOVER.......................1221 City National Bank
LEWIS C. SHOLES.................305 Paterson Building
CLINTON B. STUHT...............Aquila Court Building

NEW JERSEY

Camden

RALPH D. BAKER..................................924 Broadway
W. W. CHALMERS..................7th and Market Streets
WAYLAND P. CRAMER..................525 Cooper Street
J. WILLIAM MARKEIM........4th and Federal Streets
PHILIP ZINMAN...........................2500 Federal Street

East Orange

FRANK H. TAYLOR..................................520 Main Street
HARRY A. TAYLOR..................................520 Main Street

Elizabeth

JOHN K. LEEDS..........................10 Westfield Avenue
B. B. MILLER.......................................215 Broad Street
BURTON THOMPSON.............................18 W. Jersey
MAX TIEGER.......................................215 Broad Street

Fort Lee

ISIDORO QUINTANA..........................213 Main Street

Jersey City

PERCY A. GADDIS......30 Journal Square, Room 300

Linden

JOHN FEDOR..............................540 S. Wood Avenue

Metuchen

J. K. POWELL..............................Main and Middlesey

Newark

MURRAY APFELBAUM..................786 Broad Street
JOHN J. BERRY..................................930 Broad Street
JOS. L. FEIBLEMAN..................17-19 William Street
FRANKLIN HANNOCH, Fiedler Corp.......14 Park Pl.
LOUIS HERMAN......................................60 Park Place
JOHN A. LINNETT........................29 Elizabeth Street
E. J. MAIER..40 Clinton Street
JOEL L. SCHLESINGER..................31 Clinton Street

Perth Amboy

MORRIS GOLDFARB..................279 Madison Avenue

Ridgewood

SAMUEL S. WALSTRUM..

Rutherford

CHARLES A. VAN WINKLE......1 and 2 Station Sq.
THEODORE VAN WINKLE..........1 and 2 Station Sq.

NEW YORK

Brooklyn

JAMES B. FISHER........................160 Remsen Street
GEORGE H. GRAY..........................310 Ashland Place
BERNARD F. HOGAN......................431 Fifth Avenue
FRANK M. McCURDY....................158 Remsen Street
JAMES F. MATTHEWS............215 Montague Street
CHARLES PARTRIDGE............389 Flatbush Avenue
FENWICK B. SMALL............................939 Broadway
R. W. WALDEN..............................162 Remsen Street

Buffalo

A. P. ALLINGHAM..........................63 Niagara Street
WALTER W. COHN............................155 Pearl Street
CUTHBERT E. REEVES......2202 Liberty Bank Bldg.

Mechanicville

FRANZ H. MOAK............................37 N. Main Street

New York City

HARRISON S. COLBURN..................30 Church Street
A. N. GITTERMAN............................45 E. 49th Street
BRACTON GOLDSTONE..................22 E. 40th Street
PHILIP W. KNISKERN..................17 E. 42nd Street

Yonkers

PAUL WEGENER................................2 Hudson Street

NORTH CAROLINA

Charlotte

CHARLES G. FLEETWOOD............118 E. 4th Street
S. T. HENDERSON..........................3 Hermitage Road

OHIO

Akron

JOHN C. KYLE..................520 S. Firestone Boulevard
W. F. VOGES.................................1109 S. Main Street

Alliance

L. D. SCRANTON..........................341 E. Main Street

Canton

WILLIAM J. UEBELHART........301 Mellett Building

Cincinnati

JOSEPH B. HALL................................35 E. 7th Street
WALTER S. SCHMIDT..............5th and Main Streets

Cleveland

BEN B. BEYER..................1425 Williamson Building
JOSEPH LARONGE............600 Union Trust Building
E. L. OSTENDORF..................1105 Chester Avenue
CARLTON SCHULTZ..............1223 Schofield Building

Springfield

HARRY S. KISSELL..........927 First Natl. Bank Bldg.

PENNSYLVANIA

Lancaster

HARRY W. BUTTS........................24 E. Orange Street

Lansdowne

W. RAYMOND EVANS............19 N. Lansdowne Ave.

Philadelphia

E. L. CARLSON, The Fidelity Mutual Life Ins. Co.
..........................The Parkway at Fairmount Avenue
SAMUEL C. KANE................401 Land Title Building
MARTIN STOTZ....................516 Land Title Building

Pittsburgh

J. W. CREE, Jr..............................211 Fourth Avenue

TENNESSEE

Nashville

J. W. GRAHAM............401 American Trust Building

WEST VIRGINIA

Charleston

CHARLES UHRIG ....
......................Box 1019, Charleston Natl. Bank Bldg.

WISCONSIN

Madison

HENRY H. BUSH, Stanley C. Hanks Co..................
....311 State Street

CANADA

Hamilton, Ontario

CYRIL R. DeMARA......405 Bank of Commerce Bldg.

Toronto, Ontario

FRANK McLAUGHLIN........ .....34 King Street, West

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APPLICATIONS FOR ADMISSION TO THE GRADE OF MEMBER—

Section 9, of Article II of the By-Laws provides that:

"Whenever a candidate seeks admission to the Institute, the Secretary shall send a written notice of such application to all members of the grade for which the candidate makes application, including therein a digest of the candidate's application and stating a time limit for reply which in no case shall be more than three weeks from date of mailing. It shall be the duty and obligation of each member to reply to such notices and to give the committee notice thereby of any favorable or unfavorable facts known to the member regarding the candidate. All replies from members shall be referred to the proper examining committee and considered by them, but kept in strict confidence by the members of such committee. A negative request of 25 per cent of the membership in good standing in the grade to which the candidate seeks admission, when such requests are made for cause, shall exclude a candidate."

IN accordance with the foregoing provision of the By-Laws, there is given below a list of applications now pending upon which the Admissions Committee will be asked to take action at its next meeting.

Each member of the Institute should carefully examine this list of applicants and promptly communicate any authentic information he may have with reference to the qualifications of each applicant with whom he is acquainted. Such information should be addressed to the Chairman of the Admissions Committee, Mr. Frank H. Taylor, 520 Main Street, East Orange, New Jersey, or to the Director of Activities, Harry Grant Atkinson, 59 East Van Buren Street, Chicago, Illinois, not later than September 15, 1932. The Institute wishes to extend its membership and admit those appraisers who have the proper qualifications and who wish to participate in its activities.

1. **A. J. Delano, Sacramento, California**
   Appraiser, Prudential Life Insurance Company; Treasurer, Robertson-Govan Company; Treasurer, Robertson-Govan Investment Company; Treasurer, Property Finance Corporation; Vice President of Appraisal Division, Sacramento Real Estate Board; Director, Fidelity Title Insurance Company; Secretary-Treasurer, Sacramento Real Estate Board; Member, Sacramento Planning Board.

2. **Fred L. Palmer, Sarasota, Florida**
   Secretary, Sarasota Real Estate Board, of which he is a broker member.

3. **Charles P. Glover, Tampa, Florida**
   Active member and past President, Tampa Real Estate Board; past President, Atlanta Real Estate Board; past President, Florida Association of Real Estate Boards; Florida real estate commissioner; past chairman of Appraisal Committee, Florida Assn. of Real Estate Boards; President, Charles P. Glover & Associates; President, Charles P. Glover Company; Vice President, Sunset Park Holding Company.

4. **Frank R. Jewett, Vero Beach, Fla.**
   Active member and President, Vero Beach Real Estate Board; owner and manager, Jewett Appraisal Service; Vice President, Florida Association of Real Estate Boards.

5. **Bryan M. Grant, Atlanta, Georgia**
   Active member, Atlanta Real Estate Board; President, B. M. Grant Company; President, Merchants & Mechanics Bank & Loan Co.; 20 years experience as an appraiser of business, residential, industrial, and acreage properties.

6. **H. H. Wooten, Cairo, Illinois**
   Associate agricultural economist, U. S. Department of Agriculture; member, Technical Committee on Land Values for the National Land Use Planning Committee; 7 years experience as farm

manager; 2 years spent in study of production costs of farm crops; 5 years experience in appraising farm lands; application for membership in member board N. A. R. E. B. pending.

7. **Charles R. Bixby, Chicago, Illinois**
Associate member, Chicago Real Estate Board; appraiser for Chicago Title and Trust Company for 7½ years; in general real estate or related business since 1912.

8. **Harry S. Cutmore, Chicago, Illinois**
Active member, Chicago Real Estate Board; President, Harry S. Cutmore and Associates, Inc.; in general appraisal business for 16 years; 6 years with the American Appraisal Company; director of 1928 re-assessment of all property in Cook County, Illinois.

9. **A. K. Hornof, Chicago, Illinois**
Vice President, Harry S. Cutmore and Associates, Inc.; formerly with the American Appraisal Company; formerly with Ford, Bacon & Davis, Inc.; recently manager of the New York and Chicago offices of the Manufacturers Appraisal Company; special Associate member, Chicago Real Estate Board.

10. **Walter R. Kuehnle, Chicago, Illinois**
Secretary, Harry S. Cutmore & Associates, Inc.; former member Appraisal Committee, Chicago Real Estate Board; active member, Chicago Real Estate Board; instructor in Real Estate Appraising at Central College of Commerce, Chicago; assistant to Mr. Cutmore in the reassessment of all property in Cook County, Illinois; superintended the appraisal of $30,000,000 worth of real estate of all kinds for receivers of closed banks; has appraised properties in Iowa, Missouri, California, Oregon, and Florida.

11. **Oscar Soderquist, Waukegan, Illinois**
Active member and past President, Waukegan-North Chicago Real Estate Board; former Chairman of local board Appraisal Committee; appraiser for Queen Insurance Company of America.

12. **Edgar H. Kilbourne, Ft. Wayne, Ind.**
Active member and past President, Fort Wayne Real Estate Board; member, Kilbourne & Perry; President, Kilbourne & Perry, Inc.; Vice President, Loop Realties, Inc.; President, E. H. Kilbourne Company.

13. **James R. Davidson, Gary, Indiana**
Active member and Secretary, Gary Real Estate Board; Vice President and Treasurer, Davidson & Davidson, Inc.; member, Associated Building Contractors of Gary; business includes brokerage, loans, management, and appraisals.

14. **Oregon Milton Dennis, Baltimore Maryland**
Active member, Real Estate Board of Baltimore; attorney at law; member, Baltimore City Bar Association; member, Maryland State Bar Association; member, American Bar Association; special assessor, Appeal Tax Court of Baltimore since 1918; consulting appraiser for various financial organizations.

15. **Paul A. Kern, Pontiac, Michigan**
Active member and President, Pontiac Real Estate Board; member, Legislative Committee, Michigan Real Estate Association; former general sales manager for Floyd Kent, Realtor; Secretary and Treasurer, Kent and Kern.

16. **N. S. Wood, St. Louis, Missouri**
Active member, St. Louis Real Estate Exchange; President, N. S. Wood, Inc.; in the real estate business exclusively in St. Louis and St. Louis County since 1893.

17. **Frank B. Fay, Jr., Butler, N. J.**
Active member and past President, Morris County Real Estate Board; 5 years on executive committee, New Jersey Association of Real Estate Boards; Treasurer, New Jersey Assn. of Real Estate Boards; appraiser for North Jersey District Water Supply Commission, the Federal Water Company, the Jersey Central Railroad Company, and the Ledgerwood Company; President, Fayson Lake, Inc.; Director and appraiser, Pompton Title & Mortgage Co.; appraiser, New Jersey State Highway Commission; appraiser, Passaic Valley Water Commission; former appraiser and estimator for the City Mortgage Company of Newark.

18. **Arnold De Wolf Allen, Elizabeth, New Jersey**
Active member and President, Elizabeth Real Estate Board; partner, Eleanor Lane Allen and Son.

19. **D. E. C. Somers, Jersey City, N. J.**
Active member and President, Jersey City Real Estate Board; President, Vet-

erans Building and Loan Assn. of Jersey City; 15 years real estate experience of which past 7 years have been devoted primarily to appraisal work.

20. George Baur, Brooklyn, New York
Associate member, Brooklyn Real Estate Board; makes independent appraisals for realty companies and individuals; President, Kings Post Realty Co., Inc.; Secretary, Forbro Realty Co. Inc.; from 1920-30 in charge of Appraisal Department, U. S. Mortgage and Trust Company, New York City.

21. Stephen F. Berrara, Brooklyn, N. Y.
Active member, past President, and member Appraisal Committee, Brooklyn Real Estate Board; 27 years experience in general real estate business.

22. Arthur J. Horton, Brooklyn, N. Y.
Active member and Director, Brooklyn Real Estate Board; Vice President, Bulkley & Horton Company; Director, Long Island Real Estate Board.

23. George S. Horton, Brooklyn, N. Y.
Active member and President, Brooklyn Real Estate Board; President, Bulkley & Horton Company; Director, Brooklyn Bond and Mortgage Company; Chairman of Executive Committee, Lafayette National Bank; President, Bulkley & Horton Holding Company; President, Lafayette Bank Shares Corp.; President, 71 Brooklyn Avenue Corp.

24. Joseph L. Long, Brooklyn, N. Y.
Associate member, Brooklyn Real Estate Board; Secretary and Appraiser, Security Title and Guaranty Co.; Appraiser, Equitable Life Assurance Society.

25. Lewis H. Pounds, Brooklyn, N. Y.
Active member and past President, Brooklyn Real Estate Board; former Treasurer, State of New York; former Commissioner of Public Works; former President, Borough of Brooklyn; former member Committee on Docks, Port and Harbor Developments; specialized in appraisal work and court testimony since 1918 having appraised properties totaling in value from $150,000,000 to $200,000,000.

26. Percival V. Bowen, Buffalo, N. Y.
Active member, Buffalo Real Estate Board; member, Bowen and Bowen; member, J. C. & P. V. Bowen, Inc.; member, Bowen Securities Corporation.

27. Granville H. Rome, Jamaica, N. Y.
Active member, Long Island Real Estate Board; Vice President, Bulkley & Horton Company; Vice President, Brevoort Savings Bank; Chairman of Appraisal Committee, Brevoort Savings Bank; Vice President and member Appraisal Committee, Bulkley & Horton Holding Company; Vice President and member Appraisal Committee, Sunshine Properties.

28. Richard T. Childs, Mineola, N. Y.
Active member and past President, Long Island Real Estate Board; appraiser for Nassau County Trust Company; past President, New York State Association of Real Estate Boards; past Director, National Assn. of Real Estate Boards.

29. Claude L. Baker, Akron, Ohio
Active member, Akron Real Estate Board; Treasurer, The Herberich-Hall-Harter Company; Vice President, The Herberich Realty Co.; Treasurer, The Colonial Investment Corp.; member, Akron Appraisal Committee for the Prudential Life Insurance Company.

30. Mark Hambleton, Canton, Ohio
President, Mark Hambleton Company; Director, Executive Committee, The Title Mortgage Company, Canton, Ohio; Director, Better Business Bureau; Confidential advisor, and authorized real estate agent for H. H. Timken of the Timken Roller Bearing Co., Canton, Ohio; active Member and Past President, Canton Real Estate Board; past Vice President, Ohio Assn. of Real Estate Boards; past Director of Appraisal Committee, Canton Real Estate Board.

31. Lewis R. Smith, Cincinnati, Ohio
Active member, Cincinnati Real Estate Board; appraiser for the City of Cincinnati, the County of Hamilton, the State of Ohio, the Federal Government; Appraiser for the B. & O. Railroad, the Pennsylvania Railroad, the C. C. C. & St. L. R. R., Erie Railroad, Dayton Union Railway, Norfolk and Western Railway, Chesapeake and Ohio Railroad.

32. Alexander S. Taylor, Cleveland, O.
Active member, Cleveland Real Estate Board; past President, National Association of Real Estate Boards; President, V. C. Taylor & Son, Inc.; President, The Corydon Realty Company;

Director, The Guardian Trust Company; Director, The Guarantee Title & Trust Company; Trustee, Society for Savings; 44 years experience in real estate appraising.

33. Howard W. Etchen, Toledo, Ohio
Active member and First Vice President, Toledo Real Estate Board; President, Suez Realty; President, The Etchen-Lutz Company; President, Model Homes Building Company.

34. Evan J. Miller, Harrisburg, Pa.
Owner Miller Brothers & Company; active member and President Harrisburg Real Estate Board; Treasurer, Pennsylvania Real Estate Association; member, Harrisburg Association of Insurance Agents; former Secretary, Pennsylvania Real Estate Association; in charge of building operations for Union Real Estate Investment Company, Bellevue Park, Harrisburg, Pennsylvania.

35. Philip N. Arnold, Philadelphia, Pa.
Active member and past President, Philadelphia Real Estate Board; President, National Realty Valuation Corporation; Vice President, Preferred Mortgage Guaranty Company; member Advisory Committee, Philadelphia Real Estate Board; Chairman Finance Committee, Pennsylvania Real Estate Association; past Chairman, Appraisal Committee, Philadelphia Real Estate Board.

36. C. Harris Colehower, Philadelphia
Active member, Philadelphia Real Estate Board; conveyancer, Mutual Success Building and Loan Association; Director, East Lansdowne Building Association; has appraised more than 3,500 properties including small dwellings; large apartment houses, factories, garages, and business properties.

37. Alva L. Rogers, Wayne, Pa.
Active member, Delaware County Real Estate Board; Civil Engineer; Surveyor; Town Planner; general real estate Broker; proprietor Real Estate Appraisers, Inc.

38. C. A. Leighton, Wilkes-Barre, Pa. sylvania
Active member and past President, Wilkes-Barre Real Estate Board; President, C. A. Leighton Company; Manager, Deposit and Savings Bank Building.

39. James Devine, Providence, R. I.
Active member, past Director, and past Chairman Appraisal Committee, Providence Real Estate Exchange; Secretary and Treasurer, The Appraisal Company of Rhode Island, Inc.; President and Treasurer, The Angell Land Company.

40. Hal Forrester Coombs, Providence,
Affiliate member, Providence Real Estate Exchange; consulting engineer, Washburn Wire Co. of Delaware; member, American Association of Engineers.

41. J. W. Denis, Nashville, Tennessee
Active member and President, Nashville Real Estate Board; President, J. W. Denis Company; former appraiser, Union Central Life Insurance Company; former appraiser, Nashville Building and Loan Association; former appraiser, Franklin Bond and Mortgage Company; former appraiser, Atlantic Life Insurance Company ; appraiser, Connecticut Mutual Life Insurance Company.

42. J. Guthrie Smith, Richmond, Va.
Active member and President, Richmond Real Estate Exchange; Vice President, Laburnum Realty Corp.; Vice President, Westover Hills Corp.; Vice President, Rothesay Extension Corp.; Vice President, Boulevard Bridge Corp.; President, Westover Hills Sewerage Connection Corp.; Director, Bank of Commerce and Trusts; past member Appraisal Committee, Richmond Real Estate Board; 14 years general real estate experience.

43. George E. Thomas, Charleston, W.
Active member and President, Charleston Real Estate Board; in charge Real Estate Department, Central Trust Company and Kanawha Valley Bank; Vice President, Kanawha Chapter, American Institute of Banking.

44. Hugo Porth, Milwaukee, Wisconsin
Active member and past President, Milwaukee Real Estate Board; Partner, Ed Porth & Sons; Vice Chairman of Appraisal Committee, Milwaukee Real Estate Board; active in real estate appraising since 1919.

45. Bert Weir, London, Ontario
Active member and past President, London Real Estate Board; President, Bert Weir & Company; Vice President, Ontario Assn. of Real Estate Boards; Director, Atlas Gas and Utilities Corp. of Chicago.

FIVE NEW BOOKS ON APPRAISING*

APPRAISING MANUAL by Stanley L. McMichael. This is the latest book from the pen of Stanley McMichael, Realtor, lecturer, contributor to real estate magazines and author of many popular books on real estate.

This new handbook on appraising gives the latest methods for the valuation of all types of property. Problems are assembled and offered simply so that the average appraiser and student can readily comprehend them. Included with the text matter will be found many useful and interesting tables, diagrams, processes and statistics which have been gathered from many sources. The manual contains chapters on depreciation and obsolescence, corner influence, triangular lot appraisals, the valuation of trees, and appraising for condemnation. The book measures 4¾ by 7½ inches and can be carried in a coat pocket. 431 pages including an appendix of tables and data of over 100 pages and a complete index. $5.00.

APPRAISERS AND ASSESSORS MANUAL by Prouty, Collins and Prouty. This book was written to meet the needs of the practicing assessor and appraiser and is meant to be a volume of principles by means of which a system of valuation can be worked out. It includes the valuation of unusual types of buildings such as loft, hotels, fraternal buildings, etc. The book is completed with a considerable discussion of the appraisal of merchandise, fixtures, equipment, live stock, automobiles and intangible property. 500 pages. Many illustrations, diagrams and tables. Complete index. $5.00.

ESTIMATING CONSTRUCTION COSTS by G. Underwood, is prepared as a source book for estimators. A new method of portraying costs is used. Numerous charts taking in all possible contingencies are developed in the supposition of a normal wage and usual working conditions. No mental computations are necessary in using the charts, as the results are easily obtained at sight. The charts in each case are preceded by several pages devoted to a description of the operations involved. Some of the subjects treated are transportation of materials, excavation, piling, concrete, wood construction, brick tile, structural steel, lathing and plastering, pipe work and heating, painting and glazing, machinery and machinery erection, etc. 617 pages complete with charts, tables and index. $6.00.

REAL ESTATE APPRAISALS by Henry A. Babcock, editor-in-chief, is a collection of discussions and examples of current technique issued in 1931 by the Appraisal Division of the National Association of Real Estate Boards. Table of contents includes: Real Estate Appraising and Loan Failures by H. A. Babcock; What Constitutes Value in Real Estate, by P. W. Kniskern; Relationships Affecting Value, by L .O. McCormick and G. I. Schmutz; The Commodity Index and Real Estate Prices, by L. O. McCormick and G. I. Schmutz; Depreciation, Deterioration, and Obsolescence, by A. J. duBois; Fallacies of the Summation Method, by J. A. Register; The Errors Valuators Make, by F. M. Babcock; Value and Use of Depth Tables, by Mark Levy; Condemnation Appraisals, by Peter Hanson; The Appraisal of a Small Commercial Property, by M. F. Reidy; Demonstration Appraisal of a Small Commercial Property, by J. A. Register; Demonstration Appraisal of a Residence, by A. P. Allingham; Wholesale Appraising for Taxation Purposes, by J. B. Hall; Standards of Appraisal Practice; Standard Work Sheets for Use in Appraising Properties; Books and Articles on Appraising and City Growth; By-Laws of the Appraisal Division; Roster of the Appraisal Division; Catalog of Standard Forms. Book now out of print.

REAL ESTATE VALUATION by Frederick M. Babcock. A statement of the appraisal problem and a discussion of the principles involved in the development of valuation methods. Seven specific methods are described in detail, illustrated with diagrams. Issued by the Bureau of Business Research, School of Business Administration of the University of Michigan, and Michigan Business Studies, vol. IV, No. 1., 1932. $1.00.

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*These books may be secured from the Book Supply Department, National Association of Real Estate Boards, 59 East Van Buren St., Chicago, Ill.

ARTICLES WORTH READING

This list supplements the Books and Articles on Appraising and City Growth published in REAL ESTATE APPRAISALS, Henry A. Babcock, editor-in-chief, 1931.

APKER—Actual appraisal report of dairy farm. National Real Estate Journal, March, 1932, p. 57.

ARONOVICI—Co-efficients of realty values. Real Estate, Jan. 9, 1932, p. 11.

ARONOVICI—Improvement balanced by value. Real Estate, Jan. 23, 1932, p. 17.

ATKINS—Building a clientele in the appraisal business. National Real Estate Journal, April, 1932, p. 28.

BOECKH—Actual appraisal reports. National Real Estate Journal, May, 1932, p. 54.

BOECKH—Analytic appraisal system. National Real Estate Journal, Dec. 21, 1931, p. 25.

BOECKH—Chart for computing cubic foot values of homes. National Real Estate Journal, June, 1932, p. 31.

BOWMAN—Scientific method "muscles in" on construction. Building Investment, June, 1932, p. 30.

BOYCE—Problems in the valuation of commercial properties. National Real Estate Journal, June, 1932, p. 49.

BRINDLEY—Retail rentals as a guide to real estate values. National Real Estate Journal, Aug. 17, 1931, p. 19.

BROWN—The economic life of structural and mechanical parts of office buildings. Real Estate Record and Builders Guide, March 5, 1932, p. 5.

BURT—The practical value of accurate appraisal. Buildings and Building Management, July, 1932, p. 31.

CHURCH—The economic elements of buildings. Real Estate Record and Builders Guide, Feb. 27, 1932, p. 9.

CHURCH—The effects of variable office depth. Real Estate Record and Builders Guide, Jan. 23, 1932, p. 5.

CHURCH—The relations of building cost and income. Real Estate Record and Builders Guide, Jan. 30, 1932, p. 5.

COLBURN and others—Actual appraisal report: Pier property. National Real Estate Journal, July, 1932, p. 37.

CUTMORE and Kuehnle—New method of computing "High Land Value" obsolescence. National Real Estate Journal, August, 1932, p. 22.

DOUD—Actual appraisal report: Gas plant site. National Real Estate Journal, June, 1932, p. 55.

Fifteen buildings confess costs. Real Estate, July 30, 1932, p. 15.

GADDIS—Appraising utilities. National Real Estate Journal, Nov. 23, 1931, p. 27.

GILBERT—Condemnation appraisals. National Real Estate Journal, March, 1932, p. 21.

GOLDFARB—Appraisal report of business block. National Real Estate Journal, Oct. 26, 1931, p. 21.

HANSON—Condemnation appraisals. National Real Estate Journal, Aug. 17, 1931, p. 9.

HANSON—Overcoming obsolescence. National Real Estate Journal, Dec. 21, 1931, p. 18.

HENDERSON—Actual appraisal reports: Service station site. National Real Estate Journal, Aug. 3, 1931, p. 24.

HENDERSON—Do sales prove value? National Real Estate Journal, Sept. 14, 1931, p. 21.

HEWEN—Comprehensive rules governing realty appraisals needed. Real Estate Record and Builders Guide, May 14, 1932, p. 7.

HOLDEN—A challenge to leadership in real estate administration. Real Estate Record and Builders Guide, May 21, 1932, p. 5; May 28, 1932, p. 5; June 4, 1932, p. 5.

HOLDEN—Is real estate different? Building Investment, February, 1932, p. 30.

HUNT—Actual appraisal reports: California citrus ranch. National Real Estate Journal, April, 1932, p. 43.

HYDER—Actual appraisal reports: Valuation of theater, store, office and recreation building on 99-year ground lease. National Real Estate Journal, Aug. 31, 1931, p. 12.

HYDER—Appraisal report. National Real Estate Journal, January, 1932, p. 22.

JEWETT Appraisal Service—Appraisal report. National Real Estate Journal, January, 1932, p. 53.

KERBY—Debit appraisal: Loft buildings. Building Investment, February, 1932, p. 13.

KNISKERN—Better appraisal standards urged. Savings Bank Journal, March, 1932, p. 38.

KNISKERN—The process of real estate liquidation in Manhattan. Real Estate Record and Builders Guide, May 7, 1932, p. 5.

KUEHNLE—Appraisal report of apartment site. National Real Estate Journal, Nov. 9, 1931, p. 24.

KUEHNLE—New depth tables consider uses. Real Estate, Aug. 6, 1932, p. 12.

McCASLIN—Appraising a 99-year lease. National Real Estate Journal, February, 1932, p. 27.

MAYO—Comparative costs of building. Real Estate, March 12, 1932, p. 11.

POWELL—Actual appraisal report. National Real Estate Journal, Sept. 28, 1931, p. 22.

PRATT—Relation of commodity prices to real estate values. National Real Estate Journal, June, 1932, p. 35.

QUINTANA—Actual appraisal report. National Real Estate Journal, February, 1932, p. 63.

REGISTER—Actual appraisal reports: Small store buildings. National Real Estate Journal, July 20, 1931, p. 22.

SCHACKNE—What affects the market value of business property. National Real Estate Journal, Aug. 17, 1931, p. 26.

SEAVER—Finding the facts to determine values. National Real Estate Journal, May, 1932, p. 38.

SIMPSON—The process of land valuation. Real Estate, February 6, 1932, p. 14.

SPEAR and Eberle—The relation of land value to loft building heights. Real Estate Record and Builders Guide, Feb. 27, 1932, p. 5.

TAYLOR—Acquiring railroad rights of way. National Real Estate Journal, Oct. 26, 1931, p. 12.

THOMPSON, C. W.—Valuation for rate-making, 1932. Journal of Land & Public Utility Economics, August, 1932, p. 225.

THOMPSON, R. E.—Appraisal of a right of way. National Real Estate Journal, Dec. 7, 1931, p. 15.

THOMPSON, R. E.—Effect of the appraisal method on capitalization rates. National Real Estate Journal, Sept. 14, 1931, p. 26.

THOMPSON, R. E.—Labor-saving depreciation tables. National Real Estate Journal, Oct. 12, 1931, p. 21.

VALUES—pre-war and post-war. Savings Bank Journal, July, 1932, p. 5.

WOLFSON—Chain store leasing: appraising locations. Real Estate Record and Builders Guide, Jan. 23, 1932, p. 9.

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